

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2004

or

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

For the transition period from
to

Commission File Number
1-16411

NORTHROP GRUMMAN CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

95-4840775

(I.R.S. Employer
Identification Number)

1840 Century Park East, Los Angeles, California 90067

www.northropgrumman.com

(Address of principal executive offices and internet site)

(310) 553-6262

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of July 26, 2004, 358,516,672 shares of common stock were outstanding.

NORTHROP GRUMMAN CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

<i>\$ in millions</i>	June 30, 2004	December 31, 2003
Assets:		
Cash and cash equivalents	\$ 559	\$ 342
Accounts receivable, net of progress payments of \$24,071 in 2004 and \$21,400 in 2003	3,487	3,198
Inventoried costs, net of progress payments of \$1,042 in 2004 and \$1,003 in 2003	1,220	1,147
Deferred income taxes	825	770
Prepaid expenses and other current assets	220	167
Assets of businesses held for sale	65	121
Total current assets	6,376	5,745
Net property, plant, and equipment	4,033	4,036
Goodwill	17,209	17,333
Other purchased intangibles, net of accumulated amortization of \$1,100 in 2004 and \$987 in 2003	1,597	1,710
Prepaid retiree benefits cost and intangible pension asset	2,968	2,988
Other assets	1,144	1,197
Total other assets	22,918	23,228
Total assets	\$ 33,327	\$ 33,009

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<i>\$ in millions</i>	June 30, 2004	December 31, 2003
Liabilities and Shareholders' Equity:		
Notes payable to banks	\$ 12	\$ 10
Current portion of long-term debt	386	461
Trade accounts payable	1,544	1,491
Accrued employees' compensation	991	995
Advances on contracts	1,424	1,285
Contract loss provisions	323	364
Income taxes payable	322	356
Other current liabilities	1,374	1,299
Liabilities of businesses held for sale	40	100
Total current liabilities	6,416	6,361
Long-term debt	5,366	5,410
Mandatorily redeemable preferred stock	350	350
Accrued retiree benefits	3,841	3,811
Deferred income taxes	534	509
Other long-term liabilities	796	770
Minority interest	12	13
Total liabilities	17,315	17,224
Paid-in capital		
Common stock, 800,000,000 shares authorized; issued and outstanding: 2004 — 358,417,384; 2003 — 362,216,210	12,439	12,433
Retained earnings	3,624	3,431
Unearned compensation	(4)	(6)
Accumulated other comprehensive loss	(47)	(73)
Total shareholders' equity	16,012	15,785
Total liabilities and shareholders' equity	\$ 33,327	\$ 33,009

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

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
<i>\$ in millions, except per share</i>				
Sales and Service Revenue				
Product sales	\$ 5,121	\$ 4,637	\$ 10,050	\$ 8,684
Service revenue	2,253	1,990	4,429	3,809
Total revenue	7,374	6,627	14,479	12,493
Cost of Sales and Service				
Cost of product sales	4,191	3,759	8,102	6,964
Cost of service revenue	2,091	1,926	4,162	3,684
Administrative and general expenses	609	551	1,298	1,126
Operating margin	483	391	917	719
Interest income	16	17	32	29
Interest expense	(112)	(119)	(225)	(263)
Other, net	3	11	13	28
Income from continuing operations before income taxes	390	300	737	513
Federal and foreign income taxes	101	93	220	132
Income from continuing operations	289	207	517	381
Income from discontinued operations, net of tax	6	2	7	82
(Loss) gain on disposal of discontinued operations, net of tax		(4)	3	(5)
Net income	\$ 295	\$ 205	\$ 527	\$ 458
Basic Earnings Per Share				
Continuing operations	\$.80	\$.55	\$ 1.43	\$ 1.01
Discontinued operations	.02	.01	.02	.22
Disposal of discontinued operations		(.01)	.01	(.01)
Basic earnings per share	\$.82	\$.55	\$ 1.46	\$ 1.22
Diluted Earnings Per Share				
Continuing operations	\$.79	\$.55	\$ 1.42	\$ 1.00
Discontinued operations	.02		.02	.22
Disposal of discontinued operations		(.01)	.01	(.01)
Diluted earnings per share	\$.81	\$.54	\$ 1.45	\$ 1.21

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

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(Unaudited)**

	Six months ended June 30	
<i>\$ in millions, except per share</i>	2004	2003
Paid-in Capital		
At beginning of period	\$ 12,433	\$ 12,511
Common stock repurchased	(295)	
Stock split	179	
Employee stock awards and options, net of tax	122	34
At end of period	12,439	12,545
Retained Earnings		
At beginning of period	3,431	2,870
Net income	527	458
Stock split	(179)	
Cash dividends	(155)	(159)
At end of period	3,624	3,169
Unearned Compensation		
At beginning of period	(6)	(11)
Amortization of unearned compensation	2	3
At end of period	(4)	(8)
Accumulated Other Comprehensive Loss		
At beginning of period	(73)	(1,048)
Change in cumulative translation adjustment	3	12
Change in unrealized gain on marketable securities, net of tax	23	
At end of period	(47)	(1,036)
Total shareholders' equity	\$ 16,012	\$ 14,670
Cash dividends per share	\$.43	\$.40

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

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30	
<i>\$ in millions</i>	2004	2003
Operating Activities		
Sources of Cash—Continuing Operations		
Cash received from customers		
Progress payments	\$ 3,828	\$ 3,348
Other collections	10,539	8,968
Income tax refunds received	104	20
Interest received	2	12
Other cash receipts	29	35
Total sources of cash —continuing operations	14,502	12,383
Uses of Cash—Continuing Operations		
Cash paid to suppliers and employees	13,065	11,342
Interest paid	231	329
Income taxes paid	291	1,121
Other cash payments	18	10
Total uses of cash—continuing operations	13,605	12,802
Net sources (uses) of cash—continuing operations	897	(419)
Net cash (used in) provided by discontinued operations	(24)	44
Net cash provided by (used in) operating activities	873	(375)
Investing Activities		
Proceeds from sale of businesses, net of cash divested	64	3,297
Payment for businesses purchased, net of cash acquired		(43)
Additions to property, plant, and equipment	(267)	(229)
Proceeds from sale of property, plant, and equipment	6	20
Proceeds from sale of investment	23	
Other investing activities, net	12	(1)
Discontinued operations	(1)	(69)
Net cash (used in) provided by investing activities	(163)	2,975
Financing Activities		
Borrowings under lines of credit	103	758
Repayment of borrowings under lines of credit	(101)	(122)
Principal payments of long-term debt	(109)	(3,768)
Proceeds from issuance of stock	65	7
Dividends paid	(155)	(159)
Redemption of minority interest		(117)
Common stock repurchases	(295)	
Discontinued operations	(1)	(343)
Net cash used in financing activities	(493)	(3,744)
Increase (decrease) in cash and cash equivalents	217	(1,144)
Cash and cash equivalents, beginning of period	342	1,412
Cash and cash equivalents, end of period	\$ 559	\$ 268

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	Six months ended June 30	
<i>\$ in millions</i>	2004	2003
Reconciliation of Income from Continuing Operations to Net Cash Provided by (Used in) Operating Activities		
Income from continuing operations	\$ 517	\$ 381
Adjustments to reconcile to net sources (uses) of cash—continuing operations		
Depreciation	238	220
Amortization of intangible assets	113	114
Common stock issued to employees	56	28
Loss (gain) on disposals of property, plant, and equipment	3	(5)
Amortization of long-term debt premium	(10)	(30)
Decrease (increase) in		
Accounts receivable	(2,960)	(3,061)
Inventoried costs	(136)	(35)
Prepaid expenses and other current assets	7	5
Increase (decrease) in		
Progress payments	2,710	2,881
Accounts payable and accruals	312	(226)
Contract loss provisions	(41)	46
Deferred income taxes	88	185
Income taxes payable	(34)	(1,137)
Retiree benefits	32	233
Other non-cash transactions	2	(18)
Net sources (uses) of cash—continuing operations	897	(419)
Net cash (used in) provided by discontinued operations	(24)	44
Net cash provided by (used in) operating activities	\$ 873	\$ (375)
Non-Cash Investing and Financing Activities		
Sale of business		
Note receivable, net of discount		\$ 455
Investment in unconsolidated affiliate		170

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

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)**

1. BASIS OF PRESENTATION

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

The accompanying unaudited consolidated condensed financial statements of the company have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. These statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position, and cash flows. The results reported in these financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the company's 2003 Annual Report.

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

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

Financial Statement Reclassification – Certain prior year amounts 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.

2. 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 this report 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 has increased from \$.20 per share to \$.23 per share. Shareholders of record on May 24, 2004, received a \$.23 cash dividend, on a post-split basis, for the second quarter of 2004 on June 5, 2004.

3. NEW ACCOUNTING STANDARDS

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 46 – *Consolidation of Variable Interest Entities* (FIN 46). In December 2003, FIN 46 was replaced by FASB

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Interpretation No. 46(R) – *Consolidation of Variable Interest Entities*. FIN 46(R) clarifies the application of Accounting Research Bulletin No. 51 – *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46(R) requires an enterprise to consolidate a variable interest entity if that enterprise will absorb a majority of the entity’s expected losses, is entitled to receive a majority of the entity’s expected residual returns, or both. FIN 46(R) became fully effective during the first quarter of 2004. Adoption of this interpretation did not have a material effect on the company’s results of operations or financial position.

On May 19, 2004, the FASB issued FASB Staff Position (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. This FSP is effective for the first interim or annual period beginning after June 15, 2004. Management is currently evaluating the effect that adoption of this FSP will have on the company’s results of operations and financial position.

4. BUSINESSES SOLD AND DISCONTINUED OPERATIONS

The company’s Consolidated Condensed Financial Statements and related footnote disclosures reflect the TRW Automotive (Auto) and Component Technologies (CT) businesses as discontinued operations, net of applicable income taxes, for all periods presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*. As such, “Income from discontinued operations, net of tax” in the accompanying Consolidated Condensed 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 remaining CT businesses. The assets and liabilities of these remaining businesses have been classified as held for sale.

Proceeds received from the sale of Auto included \$3.3 billion in cash, a \$600 million face value payment-in-kind note, 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. The payment-in-kind note matures in 2018 and bears interest at an effective yield of 11.7 percent per annum. In January 2004, restrictions on the 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 between August 2004 and June 30, 2005. Accordingly, these shares have been recorded as available-for-sale marketable securities totaling \$76 million as of June 30, 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 Condensed Statements of Financial Position. The remaining equity investment of \$130 million and \$170 million as of June 30, 2004, and December 31, 2003, respectively, is carried at cost. The note and related interest receivable had a carrying value of \$528 million and \$499 million as of June 30, 2004, and December 31, 2003, respectively. Both of these assets are included in “Other assets” in the accompanying Consolidated Condensed Statements of Financial Position.

The company has retained certain warranty, post-retirement, and other liabilities associated with the Auto business as well as the Aeronautical Systems business that TRW Inc. (TRW) divested in 2002. The settlement of these liabilities is not expected to have a material effect on the company’s financial position or results of operations, but resolution of these matters may have a material effect on cash flows.

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One of the CT businesses, Kester, was sold in February 2004 for approximately \$60 million in cash resulting in an after-tax gain of approximately \$3 million. The remaining CT businesses continue to be actively marketed and the sales of these businesses are not expected to have, either individually or in the aggregate, a material impact on the company's financial condition, results of operations, or cash flows.

Operating results of the discontinued businesses for the three and six months ended June 30, 2004, and 2003, respectively, are as follows:

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Sales	\$ 61	\$ 178	\$ 135	\$ 2,224
Income from discontinued operations	\$ 7	\$ 3	\$ 9	\$ 126
Income tax expense	(1)	(1)	(2)	(44)
Income from discontinued operations, net of tax	\$ 6	\$ 2	\$ 7	\$ 82
(Loss) gain on disposal of discontinued operations		\$ (7)	\$ 3	\$ (8)
Income tax benefit		3		3
(Loss) gain on disposal of discontinued operations, net of tax		\$ (4)	\$ 3	\$ (5)

The major classes of assets and liabilities for the discontinued businesses at June 30, 2004, and December 31, 2003, were as follows:

<i>\$ in millions</i>	June 30, 2004	December 31, 2003
Current assets	\$ 27	\$ 47
Net property, plant, and equipment	29	51
Other assets	9	23
Total assets	\$ 65	\$ 121
Accounts payable and other current liabilities	\$ 34	\$ 89
Other long-term liabilities	6	11
Total liabilities	\$ 40	\$ 100

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5. SEGMENT INFORMATION

The table below presents segment operating information for the three and six months ended June 30, 2004 and 2003, respectively. 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. 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 – *Goodwill and Other Intangible Assets*.

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Sales and Service Revenue				
Electronic Systems	\$ 1,591	\$ 1,512	\$ 3,129	\$ 2,850
Ships	1,557	1,368	3,001	2,563
Information Technology	1,225	1,123	2,455	2,214
Mission Systems	1,298	1,100	2,481	2,023
Integrated Systems	1,133	1,004	2,280	1,829
Space Technology	836	733	1,642	1,381
Intersegment eliminations	(266)	(213)	(509)	(367)
Total sales and service revenue	\$ 7,374	\$ 6,627	\$ 14,479	\$ 12,493
Operating Margin				
Electronic Systems	\$ 138	\$ 148	\$ 296	\$ 269
Ships	100	23	186	98
Information Technology	73	62	144	123
Mission Systems	86	78	162	134
Integrated Systems	90	124	206	212
Space Technology	61	55	112	87
Total segment operating margin	548	490	1,106	923
Adjustments to reconcile to total operating margin				
Unallocated expenses	(53)	(22)	(163)	(52)
Pension expense	(86)	(140)	(176)	(280)
Reversal of CAS pension expense included above	77	66	157	137
Reversal of royalty income included above	(3)	(3)	(7)	(9)
Total operating margin	\$ 483	\$ 391	\$ 917	\$ 719

Pension expense is included in determining segment operating margin to the extent that the cost is currently recognized under U.S. 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 expense determined under accounting principles generally accepted in the United States is reported separately as a reconciling item under the caption “Pension expense.” The reconciling item captioned “Unallocated expenses” includes the portion of corporate, legal, environmental, state income tax, other retiree benefits expenses, stock compensation, and other expenses not considered allowable under applicable government regulations and not allocated to the segments.

6. EARNINGS PER SHARE

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

Diluted Earnings Per Share – Diluted earnings per share 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

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security units, as applicable. Shares issuable pursuant to mandatorily redeemable preferred stock are not included in the diluted earnings per share calculations because their effect is anti-dilutive for all periods presented.

Effects of SFAS No. 150 – During the six months ended June 30, 2003, income available to common shareholders from continuing operations is 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 Condensed Statements of Financial Position. In addition, dividends accrued on mandatorily redeemable preferred stock in the amounts of \$6 million and \$12 million for the three and six months ended June 30, 2004, respectively, have been recorded as interest expense in the accompanying Consolidated Condensed Statements of Income. This change has 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 Repurchase Program – On August 20, 2003, the company approved a share repurchase program of up to \$700 million of its outstanding common stock. Share purchases 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 over an 18-month period. The company retires its common stock upon repurchase. Repurchases of common stock for the three and six months ended June 30, 2004, totaled 2.4 million and 5.9 million shares at a cost of approximately \$120 million and \$295 million, respectively. Cumulative repurchases under this program through the end of the second quarter of 2004 totaled 10.4 million shares at a cost of approximately \$495 million.

Basic and diluted earnings per share from continuing operations are calculated as follows:

	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
<i>\$ in millions, except per share</i>				
Basic Earnings per Share				
Income from continuing operations	\$ 289	\$ 207	\$ 517	\$ 381
Less preferred dividends		6		12
Income available to common shareholders from continuing operations	\$ 289	\$ 201	\$ 517	\$ 369
Weighted-average common shares outstanding, in millions	358.98	365.85	360.15	365.61
Basic earnings per share from continuing operations	\$.80	\$.55	\$ 1.43	\$ 1.01
Diluted Earnings per Share				
Income from continuing operations	\$ 289	\$ 207	\$ 517	\$ 381
Less preferred dividends		6		12
Income available to common shareholders from continuing operations	\$ 289	\$ 201	\$ 517	\$ 369
Weighted-average common shares outstanding, in millions	358.98	365.85	360.15	365.61
Dilutive effect of stock options, awards, and equity security units	4.48	2.89	4.18	3.02
Weighted-average diluted shares outstanding, in millions	363.46	368.74	364.33	368.63
Diluted earnings per share from continuing operations	\$.79	\$.55	\$ 1.42	\$ 1.00

7. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

The company accounts for goodwill under the impairment-only approach prescribed by SFAS No. 142 – *Goodwill and Other Intangible Assets*. Impairment tests are performed at least annually and more often as circumstances require. Goodwill and other purchased intangible asset balances are included in the identifiable assets of the segment to which they have been assigned. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective segment’s operating margin. The annual impairment test for all segments except Mission Systems and Space Technology is performed as of April 30, while the annual impairment test for Mission Systems and Space Technology is performed as of November 30. The annual impairment test for all segments except Mission Systems and Space Technology was performed as of April 30, 2004, with no indication of impairment.

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 amount of goodwill for the six months ended June 30, 2004, are as follows:

<i>\$ in millions</i>	Electronic Systems	Ships	Information Technology	Missions Systems	Integrated Systems	Space Technology	Total
Balance at 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 businesses sold				(3)			(3)
Fair value adjustments to net assets acquired	1	(2)	(20)	(46)		(54)	(121)
Balance at June 30, 2004	\$ 2,600	\$ 3,633	\$ 2,394	\$ 4,279	\$ 955	\$ 3,348	\$ 17,209

Fair Value Adjustments to Net Assets Acquired – The adjustments during the six months ended June 30, 2004, are primarily related to the recognition of a portion of the capital loss carryforward associated with the company’s acquisition of TRW. 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 of June 30, 2004 and December 31, 2003.

<i>\$ in millions</i>	June 30, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	\$ 2,587	\$ (1,044)	\$ 1,543	\$ 2,587	\$ (934)	\$ 1,653
Other purchased intangibles	110	(56)	54	110	(53)	57
Total	\$ 2,697	\$ (1,100)	\$ 1,597	\$ 2,697	\$ (987)	\$ 1,710

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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 was \$57 million and \$113 million for the three and six months ended June 30, 2004, respectively, and was \$57 million and \$114 million for the three and six months ended June 30, 2003, respectively.

The table below shows expected amortization for the remainder of 2004 and for the next five years.

<i>\$ in millions</i>	
Year Ended December 31	
2004 (July 1 to December 31)	\$ 113
2005	217
2006	129
2007	116
2008	108
2009	96

8. LONG-TERM DEBT

In March 2003, the company's wholly owned subsidiary, Northrop Grumman Space & Mission Systems Corp. (formerly TRW Inc.), commenced offers to purchase any or all of certain designated outstanding Northrop Grumman Space & Mission Systems Corp. debt securities in a debt reduction plan. In the first phase, completed in the first quarter of 2003, 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, substantially completed in the second quarter of 2003, 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). Cash proceeds from the sale of Auto were used to complete these transactions.

Long-term debt at June 30, 2004 and December 31, 2003, consisted of the following:

<i>\$ in millions</i>	June 30, 2004	December 31, 2003
Notes and debentures due 2004 to 2036, rates from 6.05% to 9.3%	\$ 4,977	\$ 5,090
Equity security unit notes due 2006, 7.25%	690	690
Other indebtedness due 2004 to 2024, rates from 7.0% to 8.5%	85	91
Total long-term debt	5,752	5,871
Less current portion	386	461
Long-term debt, net of current portion	\$ 5,366	\$ 5,410

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 consists 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 bear interest at 5.25 percent per annum, and each equity security unit also pays a contract adjustment payment of 2.0 percent per annum, for a combined yield on the equity security unit of 7.25 percent per annum. Each purchase contract, which is part of the equity security units, will obligate the holder thereof to purchase on November 16, 2004, for \$100, the following number of shares of the company's common stock based on the average closing price of the company's common stock, on a post-split basis, over the 20 day trading period ending on the third trading day immediately preceding November 16, 2004: (i) 1.8524 shares if the average closing price equals or exceeds \$53.985, (ii) a number of shares having a value equal to \$100.00 if the average closing price is less than \$53.985 but greater than \$44.25 and (iii) 2.2598 shares if the average closing price is less than or equal to \$44.25. In August 2004, holders of the equity security units have the opportunity to participate in a remarketing of the senior note component.

9. 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.

During the second quarter of 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 hedges reduce 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 as defined by SFAS No. 133. 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. The aggregate net fair value of the swaps at June 30, 2004, was a liability of approximately \$500,000.

10. RETIREMENT BENEFITS

Plan Descriptions

Pension Benefits – The company sponsors several defined benefit pension plans covering over 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. The company and its subsidiaries also sponsor 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.

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. Election to participate must be made at the date of retirement. Qualifying dependents are also eligible for medical coverage. Approximately 60 percent of the company's current retirees participate in the medical plans.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) expanded Medicare by introducing a prescription drug benefit as well as a federal subsidy to sponsors of retiree health care benefit plans. The company sponsors retiree health care benefit plans for some of its locations and expects that this legislation may eventually reduce the company's costs for some of these programs under the federal subsidy. The measures of the company's net periodic postretirement benefit cost presented below do not reflect any amount associated with the potential federal subsidy because the U.S. Government has not yet provided the necessary guidance to conclude whether the benefits provided by the company's plans are actuarially equivalent to Medicare Part D under the Act. This guidance is expected in the third quarter of 2004, and management is currently evaluating the effect that adoption of this guidance will have on the company's results of operations and financial position.

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

	Three months ended June 30				Six months ended June 30			
	Pension Benefits		Medical and Life Benefits		Pension Benefits		Medical and Life Benefits	
	2004	2003	2004	2003	2004	2003	2004	2003
<i>\$ in millions</i>								
Components of net periodic benefit cost								
Service cost	\$ 140	\$ 123	\$ 14	\$ 13	\$ 281	\$ 245	\$ 28	\$ 26
Interest cost	262	255	46	43	524	509	92	88
Expected return on plan assets	(344)	(297)	(12)	(9)	(688)	(595)	(24)	(19)
Amortization of								
Prior service costs	13	13			26	27		
Net actuarial loss from previous years	15	48	4	3	28	97	8	7
Special termination benefits cost				4				4
Other					5			
Net periodic benefit cost	86	142	52	54	176	283	104	106
Less net periodic benefit cost included in income from discontinued operations		2				3		
Net periodic benefit cost from continuing operations	\$ 86	\$ 140	\$ 52	\$ 54	\$ 176	\$ 280	\$ 104	\$ 106
Defined contribution plans cost	\$ 52	\$ 57			\$ 107	\$ 108		

Employer Contributions – For the six months ended June 30, 2004, contributions of \$142 million and \$70 million were made to the company's pension plans and medical and life benefits plans, respectively. As previously disclosed in its consolidated financial statements for the year ended December 31, 2003, the company expects to contribute approximately \$345 million to its pension plans and approximately \$176 million to its medical and life benefits plans in 2004.

11. LITIGATION, COMMITMENTS, AND CONTINGENCIES

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

Litigation – 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

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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. On July 28, 1992, the government declined to intervene in this action. Plaintiffs amended their damage claim and now seek compensatory damages of approximately \$369 million, which could be trebled under the False Claims Act, together with statutory penalties of up to \$39 million, pre-judgment interest, loss of use of money, and other unspecified damages for expenses, attorney fees, and costs. The individual relators also seek damages in their individual capacities for alleged retaliation. In 2001, the Civil Division of the U.S. Attorney's Office filed a motion to intervene in the action, which motion was granted on October 12, 2001. The company denies the allegations and continues to vigorously defend the action.

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 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 during the first quarter of 2004 for legal and interest costs relating to this matter, which is included in "Unallocated expenses" (see Note 5). The company has appealed to the Supreme Court of Indiana, which is expected to decide by the end of 2004 whether to hear the appeal.

Income Tax Matters – The IRS is presently completing its audits of the B-2 program for the tax years ended December 31, 1997 to December 31, 2000. Upon completion of these audits, the IRS may adopt a position that the B-2 program was completed in a year prior to 2002, which would create the potential for additional interest expense. The completion of these audits is not expected to have a material effect on the company's results of operations or financial position, but resolution of these matters may have a material effect on 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, 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 June 30, 2004, the range of reasonably possible future costs for environmental remediation is \$256 million to \$410 million, of which \$280 million has been accrued. Factors that could result in changes to the company's environmental reserves 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. Should other PRP's 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 results of operations, financial position, or cash flows.

Indemnifications – The company has retained certain warranty, post-retirement, and other liabilities associated with the Auto business as well as the Aeronautical Systems business that TRW divested in 2002. Subsequent

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adjustments to accruals recorded as of December 31, 2003, in connection with the divestitures of TRW's Auto and Aeronautical Systems businesses, if any, will be charged to income. The settlement of these liabilities is not expected to have a material effect on the company's results of operations or financial position, but resolution of these matters may have a material effect on cash flows.

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 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. Management does not expect the obligations under these agreements to have a material effect on the company's results of operations, financial position, or cash flows.

Employee Relations – Nine of the company's labor union contracts covering three locations and over 2,000 employees in the Electronics Systems sector expire at or near the end of August 2004. The results of the renegotiation of these contracts are not expected to have a material effect on the company's results of operations, financial position, or cash flows.

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 June 30, 2004, there were \$463 million of stand-by letters of credit, \$170 million of bank guarantees, and \$590 million of surety bonds outstanding.

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

12. STOCK-BASED COMPENSATION

The company applies Accounting Principles Board Opinion 25 – *Accounting for Stock Issued to Employees* and related interpretations in accounting for awards made under the company's stock-based compensation plans. When stock options are exercised, the amount of the cash proceeds to the company, along with the related tax benefit, is recorded as an increase to paid-in capital. 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 the six months ended June 30, 2004 and 2003 of \$18 and \$15, respectively.

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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 for all periods presented and the following additional assumptions for the six months ended June 30, 2004 and 2003, respectively – dividend yield: 1.5 percent and 1.8 percent; expected volatility: 34 percent and 36 percent; and risk-free interest rate: 4.2 percent and 3.2 percent.

<i>\$ in millions, except per share</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Net income as reported	\$ 295	\$ 205	\$ 527	\$ 458
Stock-based compensation, net of tax, included in net income as reported	26	14	48	25
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	(31)	(22)	(60)	(40)
Pro-forma net income using the fair value method	\$ 290	\$ 197	\$ 515	\$ 443
Basic Earnings Per Share				
As reported	\$.82	\$.55	\$ 1.46	\$ 1.22
Pro-forma	\$.81	\$.52	\$ 1.43	\$ 1.18
Diluted Earnings Per Share				
As reported	\$.81	\$.54	\$ 1.45	\$ 1.21
Pro-forma	\$.80	\$.52	\$ 1.41	\$ 1.17

13. COMPREHENSIVE INCOME

The following table summarizes the changes in comprehensive income.

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Net income	\$ 295	\$ 205	\$ 527	\$ 458
Other Comprehensive Income (Loss)				
Change in cumulative translation adjustment	(1)	3	3	12
Unrealized (loss) gain on marketable securities, before tax	(1)		36	
Income tax expense			(13)	
Other comprehensive income (loss), net of tax	(2)	3	26	12
Comprehensive income	\$ 293	\$ 208	\$ 553	\$ 470

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated condensed statement of financial position of Northrop Grumman Corporation and subsidiaries as of June 30, 2004, and the related consolidated condensed statements of income for the three-month and six-month periods ended June 30, 2004 and 2003, and the related consolidated condensed statements of cash flows and changes in shareholders' equity for the six-month periods ended June 30, 2004 and 2003. These interim financial statements are the responsibility of the Corporation's management.

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

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated condensed interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2003, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 9, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed statement of financial position as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
July 28, 2004

Item 2. 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 U.S. Government, principally the Department of Defense (DoD). The company also conducts business with foreign governments and makes domestic and international commercial sales.

Outlook

The company believes that its portfolio of technologically advanced, innovative products, services, and solution in systems integration, defense electronics, information technology, advanced aircraft, shipbuilding, and space technology will generate revenue growth in 2004 and beyond. In 2004, based on total backlog (funded and unfunded) of approximately \$57 billion as of June 30, 2004, and its opportunity to win future programs, the company expects revenue of approximately \$29 billion and improvements in net income and cash provided by operations over 2003.

Industry Factors

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

United States defense contractors have benefited from the upward trend in overall defense spending over recent years. The company believes that spending on recapitalization and transformation of the country's homeland security and defense assets will continue to be a national priority, with particular emphasis on areas like national missile defense. Substantial new competitive opportunities for the company include space based radar, aerial common sensor, transformational communications system, the Joint Unmanned Combat Air System (J-UCAS), and several international and homeland security programs. The company continues to focus on operational and financial performance for continued growth in 2004 and beyond.

U.S. Government programs in which Northrop Grumman either participates, or strives to participate, must compete with other programs for consideration during the 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, the company now has a significant presence in space technology, command, control & intelligence (C2I), federal and civil information systems, missile systems, and the manufacture of a broad range of ships including aircraft carriers and submarines. 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.

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

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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 from 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's future.

CONSOLIDATED RESULTS

Selected consolidated financial highlights are presented in the table below.

<i>\$ in millions, except per share amounts</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Sales and service revenue	\$ 7,374	\$ 6,627	\$ 14,479	\$ 12,493
Operating margin	483	391	917	719
Income from continuing operations	289	207	517	381
Net income	295	205	527	458
Diluted earnings per share from continuing operations	.79	.55	1.42	1.00
Diluted earnings per share	.81	.54	1.45	1.21
Net cash provided by (used in) operating activities	610	737	873	(375)

Sales and Service Revenue

Sales and service revenue for the three months and six months ended June 30, 2004, increased \$747 million or 11 percent and \$2 billion or 16 percent, respectively, as compared to the same periods in 2003. This strong performance reflects double-digit growth for the Mission Systems, Space Technology, Ships, and Integrated Systems operating segments.

Operating Margin

Operating margin for the three months ended June 30, 2004, increased by \$92 million or 24 percent over the same period in 2003, due to improved segment operating performance and lower pension expense, which were partially offset by higher unallocated expenses. Operating margin improved by \$58 million mainly due to higher sales volume and operating performance. This increase includes a second quarter 2004 pre-tax charge of \$60 million for the F-16 Block 60 fixed-price development program reported in the Electronic Systems segment and a second quarter 2003 pre-tax charge of \$68 million to operating margin for the commercial Polar Tanker program reported in the Ships segment. The lower pension expense of \$54 million reflects improved 2003 asset returns partially offset by a lower discount rate and a lower expected long-term rate of return on plan assets. These increases were partially offset by a \$31 million increase in unallocated expenses due to higher mark-to-market stock compensation expense and deferred state income taxes.

Operating margin for the six months ended June 30, 2004, increased \$198 million or 28 percent over the same period in 2003, reflecting an increase of \$183 million in segment operating performance and a decrease of \$104 million in pension expense. This increase was partially offset by higher unallocated expenses of \$111 million. Unallocated expenses included a first quarter 2004 provision for legal and interest costs relating to the April 27, 2004, Indiana Court of Appeals decision in favor of Allison Gas Turbine (see Note 11 to the Consolidated Condensed Financial Statements contained in Part I, Item 1), as well as higher mark-to-market stock compensation expense, environmental remediation accruals, and deferred state income taxes.

Income from Continuing Operations

Income from continuing operations for the three months ended June 30, 2004, increased \$82 million or 40 percent over the same period in 2003, primarily reflecting strong operating margin performance. During the second quarter of 2004, the company completed studies and recognized additional tax credits of approximately \$31 million related to research and development and export sales activities for the years 1997 through 2003, which resulted in an effective tax rate of 26 percent compared to 31 percent for the same period in 2003.

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Income from continuing operations for the six months ended June 30, 2004, increased \$136 million or 36 percent over the same period in 2003. This increase reflects strong operating margin performance and \$38 million in lower interest expense due to the effect of the company's debt restructuring plan, which was substantially completed by the end of the second quarter of 2003. During the first quarter of 2003, the company recognized \$26 million in research and development tax credits for the years 1981 through 1990. The effective tax rate was 30 percent for the six months ended June 30, 2004, compared to 26 percent for the same period in 2003.

Net Income

Net income for the six months ended June 30, 2003, includes the January and February operating results of TRW Automotive (Auto), which was sold in February 2003.

Net Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities for the three months ended June 30, 2004, decreased by \$127 million or 17 percent compared with the same period of 2003. The decrease is primarily due to higher tax payments in the second quarter of 2004 compared with the second quarter of 2003.

Net cash provided by operating activities for the six months ended June 30, 2004, increased by \$1.2 billion compared with the same period of 2003, primarily due to the first quarter 2003 tax payment related to the completion of the B-2 Engineering and Manufacturing Development (EMD) contract of approximately \$1 billion, and higher cash receipts in the first quarter of 2004.

MANAGEMENT FINANCIAL MEASURES

The company manages and assesses the performance of its business primarily through measures of contract acquisitions, sales and service revenue, segment operating margin, and backlog.

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 and Service Revenue – Year-to-year sales vary less than contract acquisitions and reflect performance under new and ongoing contracts.

Segment Operating Margin – Segment operating margin reflects the performance of the segments on their 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 U.S. Government Cost Accounting Standards (CAS), as well as the portion of corporate, legal, environmental, state income tax, other retiree benefits, stock compensation, and other expenses not considered allowable costs under CAS and 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.

SEGMENT OPERATING RESULTS

Certain prior year amounts in the tables within this section have been reclassified to conform to current year reporting. 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. Contract Acquisitions and Sales and Service Revenue in the tables within this section include intercompany amounts that are eliminated in the accompanying Consolidated Condensed Financial Statements.

ELECTRONIC SYSTEMS

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Contract Acquisitions	\$ 1,489	\$ 1,336	\$ 3,261	\$ 2,914
Sales and Service Revenue	1,591	1,512	3,129	2,850
Segment Operating Margin	138	148	296	269
<i>As a percentage of segment sales</i>	8.7%	9.8%	9.5%	9.4%

Contract Acquisitions

Electronic Systems segment contract acquisitions for the three months ended June 30, 2004, increased 11 percent as compared to the same period in 2003. The increase is primarily due to increased funding of \$76 million on the Multi-Platform Radar Technology Insertion Program (MP-RTIP) in the Aerospace Systems business area, and additional funding of \$51 million for LITENING targeting pods in the Defensive Systems business area.

Electronic Systems segment contract acquisitions for the six months ended June 30, 2004, increased 12 percent as compared to the same period in 2003. This increase reflects new funding of \$73 million for a restricted program in the Aerospace Systems business area, and additional funding of \$73 million for the Large Aircraft Infrared Countermeasures (LAIRCM) program in the Defensive Systems business area.

Sales and Service Revenue

Electronic Systems segment sales for the three months ended June 30, 2004, increased 5 percent as compared to the same period in 2003 due to revenue increases in the Defensive Systems and Government Systems business areas. Defensive Systems revenue increased \$75 million or 39 percent reflecting increased sales of infrared countermeasures for military helicopters, LITENING targeting pods, and test equipment. Sales in Government Systems increased \$74 million or 72 percent primarily due to higher sales to the U.S. Postal Service. These sales increases were partially offset by decreases of \$67 million and \$22 million in revenues at the Aerospace Systems and Space Systems business areas, respectively.

Electronic Systems segment sales for the six months ended June 30, 2004, increased 10 percent compared to the same period in 2003 primarily due to revenue growth in the Government Systems and Defensive Systems business areas of \$112 million or 59 percent, and \$116 million or 29 percent, respectively. Revenues for the six month period also increased by \$53 million or 9 percent in the Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR) & Naval Systems business area primarily due to increased volume at Marine Systems. These sales increases were partially offset by a \$31 million and \$21 million decrease in sales in the Aerospace Systems and Space Systems business areas, respectively.

For 2004, management expects high single-digit percentage growth over 2003 sales.

Segment Operating Margin

Electronic Systems segment operating margin for the three months ended June 30, 2004, decreased 7 percent compared to the same period in 2003. The decline in operating margin is primarily due to a \$60 million pre-tax charge in the Aerospace Systems business area for the F-16 Block 60 fixed-price development combat avionics program. During the second quarter of 2004, the Block 60 program underwent qualification testing as part of the planned transition from EMD to production. The results of the qualification testing increased the projected estimated cost to complete all elements of the program. However, the principal portion of the \$60 million charge reflects a higher estimate to complete production of the "Falcon Edge" electronic warfare suite, which includes the results of qualification testing and the impact of continued delays in supplies of integrated microelectronic assemblies. The F-16 Block 60 program is expected to be completed in 2007. 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

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estimating the costs of development are reduced. In addition, successful performance of fixed-price development programs is subject to the company's ability to control cost growth in meeting production specifications and delivery rates. While management has used its best judgment to estimate costs, future events could result in either upward or downward adjustments to those estimates. The impact of the charge was partially offset by improved performance and contract close-outs for several other programs in the Navigation Systems, Defensive Systems, Aerospace Systems, and Government Systems business areas.

Electronic Systems segment operating margin for the six months ended June 30, 2004, increased 10 percent as compared to the same period in 2003. The increase in operating margin primarily reflects higher sales volume and improved performance in the Defensive Systems, Government Systems, and Navigation Systems business areas.

For 2004, management expects segment operating margin as a percentage of segment sales of 10 percent or better.

SHIPS

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Contract Acquisitions	\$ 592	\$ 782	\$ 2,110	\$ 1,632
Sales and Service Revenue	1,557	1,368	3,001	2,563
Segment Operating Margin	100	23	186	98
<i>As a percentage of segment sales</i>	6.4%	1.7%	6.2%	3.8%

Contract Acquisitions

Ships segment contract acquisitions for the three months ended June 30, 2004, decreased by 24 percent compared to the same period in 2003. The decrease is primarily due to the second quarter 2003 funding for the LPD-17 program of \$413 million in the Amphibious & Auxiliary business area.

Ships segment contract acquisitions for the six months ended June 30, 2004, increased by 29 percent compared to the same period in 2003. The increase reflects the receipt of \$759 million of funding in the Submarines business area for the 2nd flight Virginia-class submarine program.

Sales and Service Revenue

Ships segment sales for the three and six months ended June 30, 2004, increased by 14 percent and 17 percent, respectively, as compared to the same periods in 2003. The increased revenue for both periods is primarily attributable to the Surface Combatants business area, which increased \$140 million or 38 percent in the three-month period and \$289 million or 42 percent in the six-month period, primarily due to the DD(X) program. The increase in sales for the six month period also includes a \$184 million or 39 percent increase in the Amphibious & Auxiliary business area due to continued production ramp-up on the LPD-17 and LHD-8 programs and a \$48 million or 16 percent increase in the Submarines business area, which were partially offset by an \$83 million or 8 percent decrease in the Aircraft Carriers business area.

For 2004, management expects high single-digit percentage sales growth over 2003 sales.

Segment Operating Margin

The substantial increase in the Ships segment operating margin for the three and six months ended June 30, 2004, as compared to the same periods in 2003 is primarily due to a \$68 million pre-tax charge to operating margin in the second quarter of 2003 for increased cost growth for the commercial Polar Tanker program. The charge included cost growth on the third tanker due to unusual weather delays and rework. This tanker was delivered to the customer in the third quarter of 2003. The charge also included increased cost estimates to complete the final

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two ships to reflect changes in labor productivity estimates as well as higher overhead costs. The fourth ship is approximately 98 percent complete and the expected delivery has accelerated from the fourth to the third quarter of 2004. The fifth and final tanker is approximately 65 percent complete and is scheduled for delivery in late 2005.

For 2004, management expects segment operating margin as a percentage of segment sales of 6 to 6.5 percent.

INFORMATION TECHNOLOGY

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Contract Acquisitions	\$ 1,207	\$ 930	\$ 2,401	\$ 2,256
Sales and Service Revenue	1,225	1,123	2,455	2,214
Segment Operating Margin	73	62	144	123
<i>As a percentage of segment sales</i>	6.0%	5.5%	5.9%	5.6%

Contract Acquisitions

Information Technology segment contract acquisitions for the three months ended June 30, 2004, increased by 30 percent as compared to the same period in 2003. The increase is primarily due to increased funding on various contracts in the Government Information Technology business area.

Information Technology segment contract acquisitions for the six months ended June 30, 2004, increased by 6 percent as compared to the same period in 2003. The increase is primarily due to multiple new business awards in the Government Information Technology business area, including the National Geospatial-Intelligence Agency Enterprise Engineering program and the Federal Aviation Administration Technical Assistance Contract 2.

Sales and Service Revenue

Information Technology segment sales for the three months ended June 30, 2004, increased by 9 percent as compared to the same period in 2003. This increase is due to higher sales in the Government Information Technology and Enterprise Information Technology business areas. Government Information Technology revenue increased \$86 million or 13 percent primarily due to new business awards and organic sales growth in existing programs. Enterprise Information Technology increased \$22 million or 12 percent primarily due to expanded opportunities for product and service sales with civil agencies.

Information Technology segment sales for the six months ended June 30, 2004, increased by 11 percent as compared to the same period in 2003. The higher sales are primarily attributable to a \$215 million or 17 percent increase in the Government Information Technology business area. The sales growth reflects continuing work on the Immigration and Naturalization Service Technology Enterprise Automation Management Support and Land Information Warfare Activity programs as well as new contracts.

For 2004, management expects high single-digit percentage sales growth on comparative realigned 2003 sales.

Segment Operating Margin

Information Technology segment operating margin for the three and six months ended June 30, 2004, increased by 18 percent and 17 percent, respectively, as compared to the same periods in 2003. The increases are primarily due to higher revenue in the Government Information Technology and Enterprise Information Technology business areas and improved program performance in the Commercial Information Technology business area.

For 2004, management expects segment operating margin as a percentage of segment sales to be nearly 6 percent.

MISSION SYSTEMS

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Contract Acquisitions	\$ 990	\$ 893	\$ 2,326	\$ 2,105
Sales and Service Revenue	1,298	1,100	2,481	2,023
Segment Operating Margin	86	78	162	134
<i>As a percentage of segment sales</i>	6.6%	7.1%	6.5%	6.6%

Contract Acquisitions

Mission Systems segment contract acquisitions for the three months ended June 30, 2004, increased by 11 percent as compared to the same period in 2003, reflecting additional funding on new and existing programs of \$54 million in the Command, Control & Intelligence Systems business area and \$34 million of additional funding for various contracts in the Technical & Management Services business area.

Mission Systems segment contract acquisitions for the six months ended June 30, 2004, increased by 10 percent as compared to the same period in 2003. The increase primarily results from additional funding of \$228 million in the Command, Control & Intelligence Systems business area for the Tactical Automated Security Systems II (TASS II) program, the Joint Systems Light Nuclear Biological Chemical Reconnaissance System, and various other programs.

Sales and Service Revenue

Mission Systems segment sales for the three months ended June 30, 2004, increased by 18 percent as compared to the same period in 2003, primarily due to revenue increases in the Command, Control & Intelligence Systems and Missile Systems business areas. Command, Control & Intelligence Systems revenue increased \$161 million or 26 percent primarily due to higher revenue for the TASS II program. Missile Systems revenue increased \$35 million or 12 percent, reflecting revenue from the new Kinetic Energy Interceptors program and the XonTech acquisition, as well as increased revenue from existing programs.

Mission Systems segment sales for the six months ended June 30, 2004, increased by 23 percent as compared to the same period in 2003. The sales growth reflects a \$327 million or 28 percent increase in the Command, Control & Intelligence Systems business area and a \$108 million or 21 percent increase in the Missile Systems business area.

For 2004, management expects sales growth of 15 to 20 percent on comparative realigned 2003 sales.

Segment Operating Margin

Mission Systems segment operating margin for the three and six months ended June 30, 2004, increased by 10 percent and 21 percent, respectively, as compared to the same periods in 2003. The increase is primarily attributable to increased sales volume in the Command, Control & Intelligence Systems and Missile Systems business areas. Segment operating margin decreased as a percentage of segment sales in the three month period due to the recognition of favorable performance on a restricted program in the second quarter of 2003.

For 2004, management expects segment operating margin as a percentage of segment sales to be in the mid-6 percent range.

INTEGRATED SYSTEMS

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Contract Acquisitions	\$ 820	\$ 893	\$ 2,588	\$ 2,558
Sales and Service Revenue	1,133	1,004	2,280	1,829
Segment Operating Margin	90	124	206	212
<i>As a percentage of segment sales</i>	7.9%	12.4%	9.0%	11.6%

Contract Acquisitions

Integrated Systems segment contract acquisitions for the three months ended June 30, 2004, decreased by 8 percent while contract acquisitions for the six months ended June 30, 2004, increased by 1 percent compared to the same periods in 2003. These fluctuations over the comparable periods are attributable primarily to the timing of incremental customer funding for the F/A-18, Global Hawk, E-2 Advanced Hawkeye, Joint Surveillance Target Attack Radar System, B-2 and MP-RTIP programs.

Sales and Service Revenue

Integrated Systems segment sales for the three months ended June 30, 2004, increased by 13 percent as compared to the same period in 2003, primarily due to higher sales in the Airborne Early Warning/Electronic Warfare Systems and Air Combat Systems business areas. Airborne Early Warning/Electronic Warfare Systems revenue increased \$70 million or 28 percent, primarily due to higher volume in the E-2 Advanced Hawkeye and EA-6B programs. Air Combat Systems revenue increased \$51 million or 8 percent due to higher volume in the F-35, Global Hawk and MP-RTIP programs.

Integrated Systems segment sales for the six months ended June 30, 2004, increased by 25 percent as compared to the same period in 2003. Growth in the six-month period principally reflects a \$247 million or 22 percent increase in the Air Combat Systems business area and a \$171 million or 40 percent increase in the Airborne Early Warning/Electronic Warfare Systems business area.

For 2004, management expects sales growth of 20 to 25 percent on comparative realigned 2003 sales.

Segment Operating Margin

Integrated Systems segment operating margin for the three and six months ended June 30, 2004, decreased by 27 percent and 3 percent, respectively, as compared to the same periods in 2003. The decrease in segment operating margin as a percentage of segment sales reflects the segment's changing business mix, which includes a greater proportion of lower margin development programs including F-35, Global Hawk, E-2 Advanced Hawkeye, and E-10A.

For 2004, segment operating margin as a percentage of segment sales is expected to be in the mid-8 percent range.

SPACE TECHNOLOGY

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Contract Acquisitions	\$ 552	\$ 643	\$ 1,685	\$ 1,410
Sales and Service Revenue	836	733	1,642	1,381
Segment Operating Margin	61	55	112	87
<i>As a percentage of segment sales</i>	7.3%	7.5%	6.8%	6.3%

Contract Acquisitions

Space Technology segment contract acquisitions for the three months ended June 30, 2004, decreased by 14 percent compared to the same period in 2003. The decrease primarily resulted from the timing of \$186 million of incremental funding for the Intelligence, Surveillance & Reconnaissance business area, which was received in the first quarter of 2004.

Space Technology segment contract acquisitions for the six months ended June 30, 2004, increased by 20 percent compared to the same period in 2003. The increase is primarily due to a \$284 million increase in the Intelligence, Surveillance & Reconnaissance business area. Other significant increases include \$107 million for the Space Tracking and Surveillance System program in the Missile & Space Defense business area and \$50 million for the F-35 program in the Software Defined Radios business area, and \$39 million for the National Polar Orbiting Operational Environmental Satellite System (NPOESS) in the Civil Space business area.

Sales and Service Revenue

Space Technology segment sales for the three months ended June 30, 2004, increased by 14 percent as compared to the same period in 2003, due to higher revenue in the Software Defined Radios, Civil Space, and Intelligence, Surveillance & Reconnaissance business areas. Software Defined Radios revenue increased \$39 million or 38 percent, primarily due to higher volume in the F-35 and F/A-22 programs. Civil Space revenue increased \$36 million or 28 percent, primarily due to higher volume in the NPOESS and James Webb Space Telescope programs. Intelligence, Surveillance and Reconnaissance revenue increased \$40 million or 18 percent.

Space Technology segment sales for the six months ended June 30, 2004, increased by 19 percent as compared to the same period in 2003, driven by increases of \$97 million or 52 percent in the Software Defined Radios business area, \$75 million or 18 percent in the Intelligence, Surveillance & Reconnaissance business area, and \$73 million or 30 percent in the Civil Space business area.

For 2004, management expects high single-digit percentage sales growth over 2003 sales.

Segment Operating Margin

Space Technology segment operating margin for the three and six months ended June 30, 2004, increased by 11 percent and 29 percent, respectively, as compared to the same periods in 2003. The increase is primarily due to the higher sales volume in the F-35 and F/A-22 programs in the Software Defined Radios business area.

For 2004, management expects segment operating margin as a percentage of segment sales to be in the high 6 percent range.

NON-SEGMENT FACTORS AFFECTING OPERATING MARGIN

The components of operating margin are as follows:

<i>\$ in millions</i>	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Segments				
Electronic Systems	\$ 138	\$ 148	\$ 296	\$ 269
Ships	100	23	186	98
Information Technology	73	62	144	123
Mission Systems	86	78	162	134
Integrated Systems	90	124	206	212
Space Technology	61	55	112	87
Non-segment factors affecting operating margin				
Unallocated expenses	(53)	(22)	(163)	(52)
Pension expense	(86)	(140)	(176)	(280)
Reversal of CAS pension expense included above	77	66	157	137
Reversal of royalty income included above	(3)	(3)	(7)	(9)
Total operating margin	\$ 483	\$ 391	\$ 917	\$ 719

Operating margin as a percentage of total sales and service revenue was 6.6 percent and 5.9 percent for the three months ended June 30, 2004 and 2003, respectively and 6.3 percent and 5.8 percent for the six months ended June 30, 2004 and 2003, respectively. The primary non-segment factors affecting operating margin during these periods were an increase in unallocated expenses, mostly offset by a decrease in pension expense.

Unallocated Expenses

Unallocated expenses for the three months ended June 30, 2004, increased \$31 million compared with the same period of 2003, primarily due to higher mark-to-market stock compensation expense and deferred state income taxes.

Unallocated expenses for the six months ended June 30, 2004, increased \$111 million compared with the same period of 2003, mainly due to an additional provision for legal and interest costs relating to the April 27, 2004, Indiana Court of Appeals decision in favor of Allison Gas Turbine (see Note 11 to the Consolidated Condensed Financial Statements contained in Part I, Item 1), higher mark-to-market stock compensation expense, environmental remediation accruals, and deferred state income taxes.

Pension Expense

Pension expense for the three and six months ended June 30, 2004, decreased 39 percent and 37 percent, respectively, as compared with the same periods of 2003. The decrease reflects actual 2003 asset returns greater than 20 percent, which were partially offset by a lower discount rate (6.25 percent for 2004 and 6.5 percent for 2003) and a lower expected long-term rate of return on plan assets (8.75 percent for 2004 and 9.0 percent for 2003).

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

For 2004, management expects pension expense determined in accordance with generally accepted accounting principles of approximately \$345 million and pension expense recognized under CAS, which is generally recoverable under government contracts, to be approximately \$320 million.

OTHER SIGNIFICANT INCOME STATEMENT COMPONENTS**Interest Expense**

Interest expense for the three and six months ended June 30, 2004, decreased by 6 percent and 14 percent, respectively, as compared with the same periods in 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, 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 Statement of Financial Accounting Standards No. 150 – *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*.

Income Taxes

The company's effective tax rate on income from continuing operations for the three months ended June 30, 2004, was 26 percent as compared to 31 percent for the same period in 2003. During the second quarter of 2004, the company completed studies and recognized additional tax credits of \$31 million related to research and development and export sales activities for the years 1997 through 2003.

The company's effective tax rate on income from continuing operations for the six months ended June 30, 2004, was 30 percent compared to 26 percent for the same period in 2003. During the first quarter of 2003, the company recognized \$26 million of research and development tax credits for the years 1981 through 1990.

The effective tax rate is expected to be approximately 34 percent for the remainder of 2004, resulting in an effective tax rate of 32 to 33 percent for the entire year.

Discontinued Operations

The company reported after-tax income from discontinued operations of \$6 million for the three months ended June 30, 2004, compared to a loss of \$2 million for the same period of 2003. The loss for the 2003 period was due to estimated losses recorded on the disposal of certain of the Component Technologies businesses.

The company reported after-tax income from discontinued operations of \$10 million for the six months ended June 30, 2004, compared to \$77 million for the same period of 2003. The income for the 2003 period was primarily attributable to Auto results, which were included in discontinued operations until Auto was sold in February 2003.

BACKLOG

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. Backlog is converted into sales as work is performed or deliveries are made.

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

<i>\$ in millions</i>	June 30, 2004		
	Funded	Unfunded	Total Backlog
Electronic Systems	\$ 6,600	\$ 2,239	\$ 8,839
Ships	8,858	4,926	13,784
Information Technology	2,265	2,043	4,308
Mission Systems	2,750	7,248	9,998
Integrated Systems	4,606	6,018	10,624
Space Technology	1,601	8,590	10,191
Intersegment eliminations	(529)		(529)
Total	\$ 26,151	\$ 31,064	\$ 57,215

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Major components in unfunded backlog include the Virginia-class submarines 2nd flight and DD(X) programs in the Ships segment, the Kinetic Energy Interceptors program in the Mission Systems segment, the F-35 and E-2 Advanced Hawkeye programs in the Integrated Systems segment, and the NPOESS and STSS programs in the Space Technology segment.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities – In the six months ended June 30, 2004, the company generated net cash from operating activities of \$873 million, compared with cash used of \$375 million in the same period of 2003. In the first six months of 2003, cash used in operating activities includes \$1 billion of taxes paid upon completion of the B-2 EMD contract. The IRS is presently completing its audits of the B-2 program for the tax years ended December 31, 1997 through December 31, 2000. Upon completion of these audits, the IRS may adopt a position that the B-2 program was completed in a year prior to 2002, which would create the potential for additional interest expense. Presently, the IRS has not commenced its audits for tax years ended December 31, 2001, 2002, or 2003.

Net cash provided by operating activities for 2004 is expected to be approximately \$1.7 billion. For 2004, cash generated from operations supplemented by borrowings under credit facilities is expected to be sufficient to service debt and contract obligations, finance capital expenditures, and continue paying dividends to the company's shareholders.

Investing Activities – Net cash used in investing activities during the six months ended June 30, 2004, was \$163 million, compared to cash provided by investing activities of \$3 billion during the same period of 2003. 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; debt assumption of approximately \$200 million; and a 19.6 percent interest 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 diluted 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. The payment-in-kind note matures in 2018 and bears interest at an effective yield of 11.7 percent per annum. In January 2004, restrictions on the 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 between August 2004 and June 30, 2005.

The company has retained certain warranty, post-retirement, and other liabilities associated with the Auto business as well as the Aeronautical Systems business that TRW divested in 2002. The settlement of these liabilities is not expected to have a material effect on the company's results of operations or financial position, but resolution of these matters may have a material effect on cash flows.

Financing Activities – Net cash used in financing activities was \$493 million in the six months ended June 30, 2004, compared with \$3.7 billion used in the same period of 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. In the first phase, completed in the second quarter of 2003, approximately \$2.4 billion in aggregate principal amount of outstanding debt securities had been tendered and accepted for purchase, for a total purchase price of approximately \$2.9 billion (including accrued and unpaid interest on the securities). In the second phase, substantially completed in the second quarter of 2003, 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.

On August 20, 2003, the company announced a share repurchase program of up to \$700 million of its outstanding common stock. Share purchases 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

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privately negotiated transactions over an 18-month period. The company retires its common stock upon repurchase. Repurchases of common stock for the first six months of 2004 totaled approximately \$295 million representing approximately 5.9 million shares at an average share price, including commissions, of \$49.58 per share, after giving effect for the 2-for-1 stock split in the form of a stock dividend, effective June 21, 2004. Cumulative repurchases under this program through the end of the second quarter of 2004 totaled 10.4 million shares at an average share price, including commissions, of \$47.50. The company has not made any purchases of common stock other than in connection with this publicly announced repurchase program.

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 consists 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 bear interest at 5.25 percent per annum, and each equity security unit also pays a contract adjustment payment of 2.0 percent per annum, for a combined yield on the equity security unit of 7.25 percent per annum. Each purchase contract, which is part of the equity security units, will obligate the holder thereof to purchase on November 16, 2004, for \$100, the following number of shares of the company's common stock based on the average closing price of the company's common stock, on a post-split basis, over the 20 day trading period ending on the third trading day immediately preceding November 16, 2004: (i) 1.8524 shares if the average closing price equals or exceeds \$53.985, (ii) a number of shares having a value equal to \$100.00 if the average closing price is less than \$53.985 but greater than \$44.25 and (iii) 2.2598 shares if the average closing price is less than or equal to \$44.25. In August 2004, holders of the equity security units have the opportunity to participate in a remarketing of the senior note component.

CRITICAL ACCOUNTING POLICIES

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 assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

There have been no changes in the company's critical accounting policies during the three months ended June 30, 2004.

FINANCIAL ACCOUNTING STANDARDS

No new accounting pronouncements issued or effective during the six months ended June 30, 2004, had a significant impact on the company's financial position or results of operations. Further details are contained in Note 3 to the Consolidated Condensed Financial Statements located in Part I, Item 1.

FORWARD-LOOKING INFORMATION

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

Such "forward-looking" information includes, among other things, projected deliveries, expected funding for various programs, future effective income tax rates, financial guidance regarding sales, segment operating margin, pension expense, employer contributions under pension plans and medical and life benefits plans, and cash flow,

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and is subject to numerous assumptions and uncertainties, many of which are outside Northrop Grumman's control. These include Northrop Grumman's assumptions with respect to future revenues, expected program performance and cash flows, returns on pension plan assets and variability of pension actuarial and related assumptions, the outcome of litigation and appeals, environmental remediation, divestitures of businesses, successful reduction of debt, successful negotiation of contracts with labor unions, effective tax rates and timing and amounts of tax payments, and anticipated costs of capital investments, among other things. Northrop Grumman's operations are subject to various additional risks and uncertainties resulting from its position as a supplier, either directly or as subcontractor or team member, to the U.S. Government and its agencies as well as to foreign governments and agencies; actual outcomes are dependent upon various factors, including, without limitation, Northrop Grumman's successful performance of internal plans; government customers' budgetary constraints; customer changes in short-range and long-range plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products and, in connection with any fixed price development programs, controlling cost growth in meeting production specifications and delivery rates; performance issues with key suppliers and subcontractors; government import and export policies; acquisition or termination of government contracts; the outcome of political and legal processes; natural disasters and terrorist acts; legal, financial, and governmental risks related to international transactions and global needs for military aircraft, military and civilian electronic systems and support, information technology, naval vessels, space systems and related technologies, as well as other economic, political and technological risks and uncertainties and other risk factors set out in Northrop Grumman's filings from time to time with the Securities and Exchange Commission, including, without limitation, Northrop Grumman reports on Form 10-K and Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Interest 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 June 30, 2004, substantially all borrowings were fixed-rate long-term debt obligations of which a significant portion are not callable until maturity. 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.

The company's sensitivity to a 1 percent change in interest rates is tied primarily to its \$2.5 billion credit agreement. At June 30, 2004, \$2.5 billion was available under the 5-year revolving credit facility.

During the second quarter of 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.

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 June 30, 2004, the amount of foreign currency forward contracts outstanding was not material. The company does not consider its market risk exposure relating to foreign currency exchange to be material.

Item 4. Controls and Procedures

Under the supervision and with the participation of the Chairman, Chief Executive Officer and President, and the Chief Financial Officer, the company's management has evaluated the effectiveness of the company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of the end of the period covered by this report. Based on that evaluation, the Chairman, Chief Executive Officer and President and the Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in the company's internal control over financial reporting during the quarter ended June 30, 2004, that have materially affected, or are reasonably likely to materially affect, the company's internal controls over financial reporting. In conjunction with its evaluation, management has communicated its findings to the Audit Committee of the Board of Directors.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. 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 upon its operations, financial condition, 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 results of operations, financial condition, or cash flows.

Environmental Matters – As disclosed in the company's Annual Report on Form 10-K for the year ended December 31, 2003, Lucas Western Inc. (a wholly-owned subsidiary of the company upon the acquisition of TRW) entered into an Administrative Consent Order (Order) on April 24, 2004, with the New York State Department of Environmental Conservation (DEC) for the alleged unpermitted discharge of pollutants into the waters of the State. On April 28, 2004, the DEC issued a letter confirming that Lucas Western Inc. had fulfilled its obligations under the Order, thereby terminating the Order and concluding the matter.

Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Purchases of Equity Securities – The table below summarizes, on a post-split basis, the company's repurchases of common stock during the three months ended June 30, 2004.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2004, through April 30, 2004	1,160,600	\$49.86	1,160,600	\$267 million
May 1, 2004, through May 31, 2004	1,241,200	\$49.97	1,241,200	\$205 million
June 1, 2004, through June 30, 2004				\$205 million
Total	2,401,800	\$49.92	2,401,800	\$205 million

- (1) On August 20, 2003, the company announced a share repurchase program of up to \$700 million of its outstanding common stock. Share purchases 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 over an 18-month period. The share repurchase program is

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expected to end in February 2005, unless extended by the company's Board of Directors. The company retires its common stock upon repurchase. The company has not made any purchases of common stock other than in connection with this publicly announced repurchase program.

(2) Includes commissions paid.

Item 3. Defaults Upon Senior Securities

No information is required in response to this item.

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

Annual meeting – The annual meeting of stockholders of Northrop Grumman Corporation was held May 18, 2004.

Election of Directors – The following Class I Director nominees were elected at the annual meeting:

Lewis W. Coleman
J. Michael Cook
Philip A. Odeen
Aulana L. Peters
Kevin W. Sharer

The Directors whose terms of office continue are:

John T. Chain, Jr.
Vic Fazio
Phillip Frost
Charles R. Larson
Charles H. Noski
Jay H. Nussbaum
John Brooks Slaughter
Ronald D. Sugar

The matters voted upon at the meeting and the results of each vote are as follows:

Directors:	Votes For	Votes Withheld
Lewis W. Coleman	151,953,793	13,808,832
J. Michael Cook	159,664,800	6,097,825
Philip A. Odeen	157,158,862	8,603,763
Aulana L. Peters	160,688,144	5,074,481
Kevin W. Sharer	156,235,026	9,527,599

Other matters:	Votes For	Votes Against	Votes Abstaining	Broker Non-Votes
Ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors	160,925,550	3,720,138	1,116,937	0
Shareholder Proposal regarding criteria for military contracts	7,597,033	132,727,985	12,148,367	13,289,240
Shareholder Proposal regarding a classified board	102,199,164	48,471,011	1,803,210	13,289,240

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Item 5. Other Information

No information is required in response to this item.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

*3	Amended and restated Bylaws of Northrop Grumman Corporation
*10.1	Northrop Grumman Corporation 1995 Stock Option Plan for Non-Employee Directors, as Amended as of May 11, 2004
*10.2	Amended form of non-qualified stock option agreement under the Northrop Grumman Corporation 2001 Long-Term Incentive Stock Plan (for officers)
*15	Letter from independent registered public accounting firm regarding unaudited interim financial information
*31.1	Rule 13a-14a/15d-14(a) Certification of Ronald D. Sugar (Section 302 of the Sarbanes-Oxley Act of 2002)
*31.2	Rule 13a-14a/15d-14(a) Certification of 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

(b) Reports on Form 8-K

A report on Form 8-K was dated and submitted May 4, 2004, by Northrop Grumman Corporation including as an exhibit pursuant to Item 7 and furnishing as an exhibit pursuant to Item 12 information with respect to financial results for the quarter ended March 31, 2004.

A report on Form 8-K was dated and filed May 13, 2004, by Northrop Grumman Corporation reporting pursuant to Item 5 the declaration of a stock split of its common stock and including as an exhibit pursuant to Item 7 the press release announcing the stock split.

SIGNATURES

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

NORTHROP GRUMMAN CORPORATION
(Registrant)

Date: July 29, 2004

By: /s/ SANDRA J. WRIGHT

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

**BYLAWS
OF
NORTHROP GRUMMAN CORPORATION**
(A Delaware Corporation)

ARTICLE I

OFFICES

Section 1.01. Registered Office. The registered office of Northrop Grumman Corporation (the “Corporation”) in the State of Delaware shall be at Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, and the name of the registered agent at that address shall be The Corporation Trust Company.

Section 1.02. Principal Executive Office. The principal executive office of the Corporation shall be located at 1840 Century Park East, Los Angeles, California 90067. The Board of Directors of the Corporation (the “Board of Directors”) may change the location of said principal executive office.

Section 1.03. Other Offices. The Corporation may also have an office or offices at such other place or places, either within or without the State of Delaware, as the Board of Directors may from time to time determine or as the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 2.01. Annual Meetings. The annual meeting of stockholders of the Corporation shall be held between May 1 and July 1 of each year on such date and at such time as the Board of Directors shall determine. At each annual meeting of stockholders, directors shall be elected in accordance with the provisions of Section 3.04 hereof and any other proper business may be transacted.

Section 2.02. Special Meetings. Special meetings of stockholders for any purpose or purposes may be called at any time by a majority of the Board of Directors, the Chairman of the Board, or by the President and Chief Executive Officer. Special meetings may not be called by any other person or persons. Each special meeting shall be held at such date and time as is requested by the person or persons calling the meeting, within the limits fixed by law.

Section 2.03. Place of Meetings. Each annual or special meeting of stockholders shall be held at such location as may be determined by the Board of Directors or, if no such determination is made, at such place as may be determined by the Chairman of the Board. If no location is so determined, any annual or special meeting shall be held at the principal executive office of the Corporation.

Section 2.04. Notice of Meetings. Written notice of each annual or special meeting of stockholders stating the date and time when, and the place where, it is to be held shall be delivered either personally or by mail to stockholders entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting. The purpose or purposes for which the meeting is called may, in the case of an annual meeting, and shall, in the case of a special meeting, also be stated. If mailed, such notice shall be directed to a stockholder at his address as it shall appear on the stock books of the Corporation, unless he shall have filed with the Secretary of the Corporation a written request that notices intended for him be mailed to some other address, in which case such notice shall be mailed to the address designated in such request.

Section 2.05. Conduct of Meetings. All annual and special meetings of stockholders shall be conducted in accordance with such rules and procedures as the Board of Directors may determine subject to the requirements of applicable law and, as to matters not governed by such rules and procedures, as the chairman of

such meeting shall determine. The chairman of any annual or special meeting of stockholders shall be the Chairman of the Board. The Secretary, or in the absence of the Secretary, a person designated by the Chairman of the Board, shall act as secretary of the meeting.

Section 2.06. Notice of Stockholder Business and Nominations. Nominations of persons for election to the Board and the proposal of business to be transacted by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice with respect to such meeting, (b) by or at the direction of the Board or (c) by any stockholder of record of the Corporation who was a stockholder of record at the time of the giving of the notice provided for in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this section.

For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of the foregoing paragraph, (1) the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, (2) such business must be a proper matter for stockholder action under the General Corporation Law of the State of Delaware, (3) if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the Corporation with a Solicitation Notice, as that term is defined in subclause (c)(iii) of this paragraph, such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the Corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the Corporation's voting shares reasonably believed by such stockholder or beneficial holder to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice and (4) if no Solicitation Notice relating thereto has been timely provided pursuant to this section, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this section. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than 45 or more than 75 days prior to the first anniversary (the "Anniversary") of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting of stockholders; provided, however, that if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be more timely must be so delivered not later than the close of business on the later of (i) the 90th day prior to such annual meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the filing of a stockholder's notice as described herein. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to serve as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of the Corporation that are owned beneficially and of record by such stockholder and such beneficial owner, and (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of the Corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the Corporation's voting shares to elect such nominee or nominees (an affirmative statement of such intent, a "Solicitation Notice").

Notwithstanding anything in the second sentence of the second paragraph of this Section 2.06 to the contrary, in the event that the number of directors to be elected to the Board is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board made by the Corporation at least 55 days prior to the Anniversary, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

Only persons nominated in accordance with the procedures set forth in this Section 2.06 shall be eligible to serve as directors and only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. The chair of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board or (b) by any stockholder of record of the Corporation who is a stockholder of record at the time of giving of notice provided for in this paragraph, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.06. Nominations by stockholders of persons for election to the Board may be made at such a special meeting of stockholders if the stockholder's notice required by the second paragraph of this Section 2.06 shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting.

For purposes of this section, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

Notwithstanding the foregoing provisions of this Section 2.06, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 2.06. Nothing in this Section 2.06 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 2.07. Quorum. At any meeting of stockholders, the presence, in person or by proxy, of the holders of record of a majority of shares then issued and outstanding and entitled to vote at the meeting shall constitute a quorum for the transaction of business; provided, however, that this Section 2.07 shall not affect any different requirement which may exist under statute, pursuant to the rights of any authorized class or series of stock, or under the Certificate of Incorporation of the Corporation (the "Certificate") for the vote necessary for the adoption of any measure governed thereby. In the absence of a quorum, the stockholders present in person or by proxy, by majority vote and without further notice, may adjourn the meeting from time to time until a quorum is attained. At any reconvened meeting following such an adjournment at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 2.08. Votes Required. A majority of the votes cast at a duly called meeting of stockholders, at which a quorum is present, shall be sufficient to take or authorize action upon any matter which may properly

come before the meeting, unless the vote of a greater or different number thereof is required by statute, by the rights of any authorized class of stock or by the Certificate. Unless the Certificate or a resolution of the Board of Directors adopted in connection with the issuance of shares of any class or series of stock provides for a greater or lesser number of votes per share, or limits or denies voting rights, each outstanding share of stock, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders.

Section 2.09. Proxies. A stockholder may vote the shares owned of record by him either in person or by proxy executed in writing (which shall include writings sent by telex, telegraph, cable or facsimile transmission) by the stockholder himself or by his duly authorized attorney-in-fact. No proxy shall be valid after three (3) years from its date, unless the proxy provides for a longer period. Each proxy shall be in writing, subscribed by the stockholder or his duly authorized attorney-in-fact, and dated, but it need not be sealed, witnessed or acknowledged.

Section 2.10. Stockholder Action. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual meeting or special meeting of stockholders of the Corporation, unless such action requiring or permitting shareholder approval is approved by a majority of the Continuing Directors (as defined in the Certificate), in which case such action may be authorized or taken by the written consent of the holders of outstanding shares of stock having not less than the minimum voting power that would be necessary to authorize or take such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted, provided all other requirements of applicable law and the Certificate have been satisfied.

Section 2.11. List of Stockholders. The Secretary of the Corporation shall prepare and make (or cause to be prepared and made), at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of, and the number of shares registered in the name of, each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the duration thereof, and may be inspected by any stockholder who is present.

Section 2.12. Inspectors of Election. In advance of any meeting of stockholders, the Board of Directors may appoint Inspectors of Election to act at such meeting or at any adjournment or adjournments thereof. If such Inspectors are not so appointed or fail or refuse to act, the chairman of any such meeting may (and, upon the demand of any stockholder or stockholder's proxy, shall) make such an appointment. The number of Inspectors of Election shall be one (1) or three (3). If there are three (3) Inspectors of Election, the decision, act or certificate of a majority shall be effective and shall represent the decision, act or certificate of all. No such Inspector need be a stockholder of the Corporation.

The Inspectors of Election shall determine the number of shares outstanding, the voting power of each, the shares represented at the meeting, the existence of a quorum and the authenticity, validity and effect of proxies; they shall receive votes, ballots or consents, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine when the polls shall close and determine the result; and finally, they shall do such acts as may be proper to conduct the election or vote with fairness to all stockholders. On request, the Inspectors shall make a report in writing to the secretary of the meeting concerning any challenge, question or other matter as may have been determined by them and shall execute and deliver to such secretary a certificate of any fact found by them.

ARTICLE III

DIRECTORS

Section 3.01. Powers. The business and affairs of the Corporation shall be managed by and be under the direction of the Board of Directors. The Board of Directors shall exercise all the powers of the Corporation, except those that are conferred upon or reserved to the stockholders by statute, the Certificate or these Bylaws.

Section 3.02. Number. Except as otherwise fixed pursuant to the provisions of Section 2 of Article Fourth of the Certificate in connection with rights to elect additional directors under specified circumstances which may be granted to the holders of any class or series of Preferred Stock, par value One Dollar (\$1.00) per share of the Corporation ("Preferred Stock"), the number of directors shall be fixed from time to time by resolution of the Board of Directors but shall not be less than three (3). The Board of Directors, as of January 31, 2001, and thereafter, shall consist of fourteen (14) directors until changed as herein provided.

Section 3.03. Independent Directors. At least sixty percent (60%) of the members of the Board of Directors of the Corporation shall at all times be "Independent Directors", which term is hereby defined to mean:

1. A director who is an employee, or whose immediate family member (defined as a spouse, parent, child, sibling, father- and mother-in-law, son- and daughter-in-law, brother- and sister-in-law and anyone, other than a domestic employee, sharing the director's home) is an executive officer of the Company, would not be independent until three years after the end of such relationship.
2. A director who receives, or whose immediate family member receives as an executive officer of the Company, more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service) would not be independent until three years after ceasing to receive such amount.
3. A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company would not be independent until three years after the end of the affiliation or the employment or auditing relationship.
4. A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on the other company's compensation committee would not be independent until three years after the end of such service or employment relationship.
5. A director who is an executive officer or an employee, or whose immediate family member is an executive officer of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues, would not be independent until three years after falling below such threshold.
6. A director who has or has had within the prior three years, a relationship with the Company that the Board of Directors deems material.

Section 3.04. Election and Term of Office. Except as provided in Section 3.07 hereof and subject to the right to elect additional directors under specified circumstances which may be granted, pursuant to the provisions of Section 2 of Article Fourth of the Certificate, to the holders of any class or series of Preferred Stock, directors shall be elected by the stockholders of the Corporation. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. The number of directors in each class shall be the whole number contained in the quotient obtained by dividing the authorized number of directors (fixed pursuant to Section 3.02 hereof) by three. If a fraction is also contained in such quotient, then additional directors shall be apportioned as follows: if such fraction is one-third, the additional director shall be a member of Class I; and if such fraction is two-thirds,

one of the additional directors shall be a member of Class I and the other shall be a member of Class II. Each director shall serve for a term ending on the date of the third annual meeting of stockholders of the Corporation following the annual meeting at which such director was elected; provided, however, that the directors first elected to Class I shall serve for a term ending on the date of the annual meeting next following the end of the calendar year 2000, the directors first elected to Class II shall serve for a term ending on the date of the second annual meeting next following the end of the calendar year 2000 and the directors first elected to Class III shall serve for a term ending on the date of the third annual meeting next following the end of the calendar year 2000.

Notwithstanding the foregoing provisions of this Section 3.04: each director shall serve until his successor is elected and qualified or until his death, resignation or removal; no decrease in the authorized number of directors shall shorten the term of any incumbent director; and additional directors, elected pursuant to Section 2 of Article Fourth of the Certificate in connection with rights to elect such additional directors under specified circumstances which may be granted to the holders of any class or series of Preferred Stock, shall not be included in any class, but shall serve for such term or terms and pursuant to such other provisions as are specified in the resolution of the Board of Directors establishing such class or series.

Nominations for the election of directors may be made by the Board or a committee thereof or by any stockholder entitled to vote in the election of directors; provided, however, that a stockholder may nominate a person for election as a director at a meeting only if written notice of such stockholder's intent to make such nomination has been given by such stockholder to, and received by, the Secretary of the Corporation at the principal executive offices of the Corporation not less than sixty (60) days nor more than ninety (90) days prior to the meeting; provided, however, that (a) in the event that less than seventy (70) days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the date on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs; and (b) in the event that less than seventy (70) days shall remain from the date of public disclosure of the adoption of this bylaw provision to the date of any meeting, notice by the stockholder to be timely with respect to such meeting must be so received not later than the close of business on the 10th day following the date on which such public disclosure was made. Each such notice shall set forth: (a) the name and address of the stockholder who intends to make the nomination and of the person or persons to be nominated; (b) the name and address as they appear on the Corporation's books of the stockholder intending to make such nomination; (c) the class and number of shares of capital stock of the Corporation which are beneficially owned by such stockholder (d) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (e) the occupations and business history for the previous five years, other directorships, names of business entities of which the proposed nominee owns a 10 percent or more equity interest, a list of any criminal convictions, including federal and state securities violations and such other information regarding each proposed nominee as may be required by the federal proxy rules in effect at the time the notice is submitted and (f) the consent of each nominee to serve as a director of the Corporation if so elected. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 3.04. The Chairman of any meeting of stockholders shall direct that any nomination not made in accordance with these procedures be disregarded.

Section 3.05. Election of Chairman of the Board. At the organizational meeting immediately following the annual meeting of stockholders, the directors shall elect a Chairman of the Board from among the directors who shall hold office until the corresponding meeting of the Board of Directors in the next year and until his successor shall have been elected or until his earlier resignation or removal. Any vacancy in such office may be filled for the unexpired portion of the term in the same manner by the Board of Directors at any regular or special meeting.

Section 3.06. Removal. Subject to the right to elect directors under specified circumstances which may be granted pursuant to Section 2 of Article Fourth of the Certificate to the holders of any class or series of Preferred Stock, any director may be removed from office only as provided in Article Tenth of the Certificate.

Section 3.07. Vacancies and Additional Directorships. Except as otherwise provided pursuant to Section 2 of Article Fourth of the Certificate in connection with rights to elect additional directors under specified circumstances which may be granted to the holders of any class or series of Preferred Stock, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 3.08. Regular and Special Meetings. Promptly after, and on the same day as, each annual election of directors by the shareholders, the Board shall, if a quorum be present, meet in an organizational meeting to elect a chairman, appoint members of the standing committees of the Board, elect officers of the Corporation and conduct other business as appropriate. Additional notice of such meeting need not be given if such meeting is conducted promptly after the annual meeting to elect directors and if the meeting is held in the same location where the election of directors was conducted. Regular meetings of the Board shall be held at such times and places as the Board shall determine. Notice of regular meetings shall be mailed to each director at least five days before the meeting, addressed to the director's usual place of business or to his or her residence address or to an address specifically designated by the director.

Section 3.09. Quorum. At all meetings of the Board of Directors, a majority of the fixed number of directors shall constitute a quorum for the transaction of business, except that when the Board of Directors consists of one director, then the one director shall constitute a quorum. In the absence of a quorum, the directors present, by majority vote and without notice other than by announcement, may adjourn the meeting from time to time until a quorum shall be present. At any reconvened meeting following such an adjournment at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 3.10. Votes Required. Except as otherwise provided by applicable law or by the Certificate, the vote of a majority of the directors present at a meeting duly held at which a quorum is present shall be sufficient to pass any measure.

Section 3.11. Place and Conduct of Meetings. Each regular meeting and special meeting of the Board of Directors shall be held at a location determined as follows: The Board of Directors may designate any place, within or without the State of Delaware, for the holding of any meeting. If no such designation is made: (i) any meeting called by a majority of the directors shall be held at such location, within the county of the Corporation's principal executive office, as the directors calling the meeting shall designate; and (ii) any other meeting shall be held at such location, within the county of the Corporation's principal executive office, as the Chairman of the Board may designate or, in the absence of such designation, at the Corporation's principal executive office. Subject to the requirements of applicable law, all regular and special meetings of the Board of Directors shall be conducted in accordance with such rules and procedures as the Board of Directors may approve and, as to matters not governed by such rules and procedures, as the chairman of such meeting shall determine. The chairman of any regular or special meeting shall be the Chairman of the Board, or in his absence a person designated by the Board of Directors. The Secretary, or in the absence of the Secretary a person designated by the chairman of the meeting, shall act as secretary of the meeting.

Section 3.12. Fees and Compensation. Directors shall be paid such compensation as may be fixed from time to time by resolutions of the Board of Directors (a) for their usual and contemplated services as directors, (b) for their services as members of committees appointed by the Board of Directors, including attendance at committee meetings as well as services which may be required when committee members must consult with management staff, and (c) for extraordinary services as directors or as members of committees appointed by the

Board of Directors, over and above those services for which compensation is fixed pursuant to items (a) and (b) in this Section 3.12. Compensation may be in the form of an annual retainer fee or a fee for attendance at meetings, or both, or in such other form or on such basis as the resolutions of the Board of Directors shall fix. Directors shall be reimbursed for all reasonable expenses incurred by them in attending meetings of the Board of Directors and committees appointed by the Board of Directors and in performing compensable extraordinary services. Nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity, such as an officer, agent, employee, consultant or otherwise, and receiving compensation therefore.

Section 3.13. Committees of the Board of Directors. Subject to the requirements of applicable law, the Board of Directors may from time to time establish committees, including standing or special committees, which shall have such duties and powers as are authorized by these Bylaws or by the Board of Directors. Committee members, and the chairman of each committee, shall be appointed by the Board of Directors. The Chairman of the Board, in conjunction with the several committee chairmen, shall make recommendations to the Board of Directors for its final action concerning members to be appointed to the several committees of the Board of Directors. Any member of any committee may be removed at any time with or without cause by the Board of Directors. Vacancies which occur in any committee shall be filled by a resolution of the Board of Directors. If any vacancy shall occur in any committee by reason of death, resignation, disqualification, removal or otherwise, the remaining members of such committee, so long as a quorum is present, may continue to act until such vacancy is filled by the Board of Directors. The Board of Directors may, by resolution, at any time deemed desirable, discontinue any standing or special committee. Members of standing committees, and their chairmen, shall be elected yearly at the organizational meeting of the Board of Directors which is held immediately following the annual meeting of stockholders.

Section 3.14. Audit Committee. There shall be an Audit Committee of the Board of Directors which shall serve at the pleasure of the Board of Directors and be subject to its control. The Committee shall have the following membership and powers:

1. The Committee shall have at least three (3) members. Each member of the Committee shall be an Independent Director, which term as used in these By-laws is hereby defined to mean any director that is "Independent" within the meaning of Section 10A(m) of the Securities Exchange Act of 1934 as added by Section 301 of the Sarbanes-Oxley Act of 2002, the rules and regulations adopted by the Securities and Exchange Commission pursuant thereto and any applicable rule of the New York Stock Exchange, as such law, rules and applications may be in effect from time to time.

2. The Board of Directors shall adopt an Audit Committee Charter that may be modified or amended from time to time, and the Audit Committee Charter may include, in addition to and not by way of limitation of or substitution for the powers and responsibilities set forth in the following subsections of this Section 3.14, such powers and responsibilities as the Board of Directors deems appropriate and in accordance with requirements of law, regulations and rules of the New York Stock Exchange, all as may be applicable from time to time.

3. The Committee shall appoint or discharge the Corporation's independent auditors, based upon the Committee's judgment of the independence of the auditors (taking into account the fees charged both for audit and non-audit services) and the quality of their audit work. The Committee shall determine and provide for the compensation of the independent auditors. Ratification by the stockholders of the Committee's appointment of the Corporation's independent auditors may be sought in conjunction with management's solicitation of proxies for the annual meeting of stockholders, if so determined by the Committee. If the independent auditors must be discharged, the Committee shall appoint new independent auditors.

4. The Committee shall review and approve the scope and plan of the audit.

5. The Committee shall meet with the independent auditors at appropriate times to review, among other things, the results of the audit and any certification, report or opinion which the auditors propose to render in connection with the Corporation's financial statements.

6. The Committee shall review and approve in advance each non-prohibited professional service of a non-audit nature to be provided by the independent auditors.

7. The Committee shall meet with the Corporation's chief internal auditor quarterly to review the adequacy of the Corporation's system of internal controls and such other matters as the Committee may deem appropriate.

8. The Committee shall have the power to direct the auditors and the internal audit staff to inquire into and report to it with respect to any of the Corporation's contracts, transactions or procedures, or the conduct of the Corporate Office, or any division, profit center, subsidiary or other unit, or any other matter having to do with the Corporation's business and affairs. The Committee may initiate special investigations and shall have the power to engage and compensate professional advisors to assist it in performing its functions.

9. The Committee shall have such other powers and responsibilities as may be lawfully delegated to it from time to time by the Board of Directors.

Section 3.15. Compensation And Management Development Committee. There shall be a Compensation and Management Development Committee of the Board of Directors which shall serve at the pleasure of the Board of Directors and be subject to its control. The Committee shall have the following membership and powers:

1. The Committee shall be composed of at least three (3) members. All members of the Committee shall be Independent Outside Directors. The principal Human Resources officer of the Corporation shall be a non-voting member of the Committee.

2. The Committee shall establish the Corporation's annual performance objectives under the Corporation's incentive compensation plans and shall review and approve the final performance against the approved goals.

3. The Committee shall make recommendations to the Board of Directors with respect to the base salary and incentive compensation of the Chief Executive Officer and Chief Operating Officer.

4. The Committee shall take final action with respect to the base salary and incentive compensation of the elected officers with the exception of the Chief Executive Officer and the Chief Operating Officer. All such actions on base salary and incentive compensation approved by the Committee shall be reported to the Board of Directors.

5. The Committee shall review management's recommendations and take final action with respect to all awards to be made to the elected officers under the Corporation's long-term incentive plans or other similar benefit plans which may be adopted by the Board of Directors or the stockholders and in which corporate officers or directors are eligible to participate, provided however that all such awards must be reported to the Board of Directors.

6. The Committee shall review on a continuing basis the Corporation's general compensation policies and practices, and benefits. The Committee shall also approve compensation plans in which elected officers are eligible to participate. However, the Board of Directors shall take action on those plans which will be submitted to the stockholders for final approval.

7. The Committee shall review from time to time and report to the Board of Directors actions taken by management concerning the Corporation's overall executive structure and the steps being taken to assure the succession of qualified management.

8. The Committee shall have such other duties as may be lawfully delegated to it from time to time by the Board of Directors.

Section 3.16. Compliance, Public Issues and Policy Committee. There shall be a Compliance, Public Issues and Policy Committee of the Board of Directors which shall serve at the pleasure of the Board of Directors and be subject to its control. The Committee shall have the following membership and powers:

1. The Committee shall have at least three (3) members. Each member shall be an Independent Director as defined in these By-laws.
2. The Committee shall receive reports from time to time on the Corporation's compliance with applicable laws and regulations to the extent not delegated to another Committee, on investigations of a legal compliance nature and as such other legal matters as the Committee may determine.
3. The Committee shall receive reports relating to the Corporation's code of ethics, which is set forth in the Corporation's Standards of Business Conduct and shall from time to time review such code and make recommendations to the Board of Directors for any revisions deemed warranted.
4. The Committee shall review, approve and monitor the policy, organization, charter and implementation of the Northrop Grumman Employees Political Action Committee.
5. The Committee shall review and approve the policy of the Corporation for engaging the services of Consultants and Commission Agents.
6. The Committee shall review on a continuing basis the Corporation's compliance with its various affirmative action plans and programs.
7. The Committee shall review on a continuing basis the Corporation's compliance with its various environmental, health and safety policies and procedures.
8. The Committee shall review and report to the Board of Directors from time to time concerning the Corporation's compliance with the Corporation's policies, practices and procedures with respect to consultants and commission agents.
9. The Committee shall review and make policy and budget recommendations to the Board of Directors for its actions concerning proposed charitable contributions and aid to higher education to be given by the Corporation each year.
10. The Committee shall have such other duties as lawfully may be delegated to it from time to time by the Board of Directors.

Section 3.17. Finance Committee. There shall be a Finance Committee of the Board of Directors which shall serve at the pleasure of the Board of Directors and be subject to its control. The Committee shall have the following membership and powers:

1. The Committee shall have at least five (5) members. At least fifty percent (50%) of the members of the Committee shall be Independent Directors. The chief financial officer of the Corporation shall be a non-voting member of the Committee.
2. The Committee shall review and give consideration to management requests for required specific new financing of a long-term nature, whether debt or equity, and make recommendations to the Board of Directors for its final action.
3. The Committee shall review the current financial condition of the Company and planned financial requirements.
4. The Committee shall review periodically the Corporation's dividend policy in connection with dividend declarations and make recommendations to the Board of Directors for its final action.

5. The Committee shall consider management's recommendations concerning acquisitions, mergers or divestments which management has determined to be of an unusual or material nature and shall make recommendations to the Board of Directors for its final action.

6. The Committee shall consider management's recommendations concerning contracts or programs which management has determined to be of an unusual or material nature and shall make recommendations to the Board of Directors for its final action.

7. The Committee shall periodically review the investment performance of the employee benefit plans, capital asset requirements and short-term investment policy when appropriate.

8. The Committee shall have such other duties as lawfully may be delegated to it from time to time by the Board of Directors.

Section 3.18. Nominating and Corporate Governance Committee. There shall be a Nominating and Corporate Governance Committee of the Board of Directors which shall serve at the pleasure of the Board of Directors and be subject to its control. The Committee shall have the following membership and powers:

1. The Committee shall have at least three (3) members. All members of the Committee shall be Independent Directors.

2. The Committee shall review candidates to serve as directors and shall recommend nominees to the Board of Directors for election at each annual meeting of stockholders or other special meetings where directors are to be elected and shall recommend persons to serve as proxies to vote proxies solicited by management in connection with such meetings.

3. The Committee shall cause the names of all director candidates that are approved by the Board of Directors to be listed in the Corporation's proxy materials and shall support the election of all candidates so nominated by the Board of Directors to the extent permitted by law.

4. The Committee shall review and make recommendations to the Board of Directors for its final action concerning the composition and size of the Board of Directors, its evaluation of the performance of incumbent directors, its recommendations concerning the compensation of the Directors, its recommendations concerning directors to fill vacancies and its evaluation and recommendations concerning potential candidates to serve in the future on the Board of Directors to assure the Board's continuity and succession and its evaluation and recommendations on matters of corporate governance as appropriate.

5. The Committee shall have such other duties as lawfully may be delegated to it from time to time by the Board of Directors.

Section 3.19. Meetings of Committees. Each committee of the Board of Directors shall fix its own rules of procedure consistent with the provisions of applicable law and of any resolutions of the Board of Directors governing such committee. Each committee shall meet as provided by such rules or such resolution of the Board of Directors, and shall also meet at the call of its chairman or any two (2) members of such committee. Unless otherwise provided by such rules or by such resolution, the provisions of these Bylaws under Article III entitled "Directors" relating to the place of holding meetings and the notice required for meetings of the Board of Directors shall govern the place of meetings and notice of meetings for committees of the Board of Directors. A majority of the members of each committee shall constitute a quorum thereof, except that when a committee consists of one (1) member, then the one (1) member shall constitute a quorum. In the absence of a quorum, a majority of the members present at the time and place of any meeting may adjourn the meeting from time to time until a quorum shall be present and the meeting may be held as adjourned without further notice or waiver. Except in cases where it is otherwise provided by the rules of such committee or by a resolution of the Board of Directors, the vote of a majority of the members present at a duly constituted meeting at which a quorum is present shall be sufficient to pass any measure by the committee.

ARTICLE IV

OFFICERS

Section 4.01. Designation, Election and Term of Office. The Corporation shall have a Chairman of the Board and/or a President either of whom may be designated Chief Executive Officer by the Board of Directors, such Vice Presidents (each of whom may be assigned by the Board of Directors or the Chief Executive Officer an additional title descriptive of the functions assigned to him and one or more of whom may be designated Executive, Group or Senior Vice President) as the Board of Directors deems appropriate, a Secretary and a Treasurer. These officers shall be elected annually by the Board of Directors at the organizational meeting immediately following the annual meeting of stockholders, and each such officer shall hold office until the corresponding meeting of the Board of Directors in the next year or until his earlier resignation, death or removal. Any vacancy in any of the above offices may be filled for an unexpired portion of the term by the Board of Directors at any regular special meeting. The Chief Executive Officer may, by a writing filed with the Secretary, designate titles for employees and agents, as, from time to time, may appear necessary or advisable in the conduct of the affairs of the Corporation and, in the same manner, terminate or change such titles.

Section 4.02. Chairman of the Board. The Board of Directors shall designate the Chairman of the Board from among its members. The Chairman of the Board of Directors shall preside at all meetings of the Board and the Shareholders, and shall perform such other duties as shall be delegated to him by the Board or the officer designated as chief executive.

Section 4.03. President. The President shall perform such duties and have such responsibilities as may from time to time be delegated or assigned to him by the Board of Directors or the officer designated as chief executive.

Section 4.04. Chief Executive. The Board of Directors shall designate either the Chairman of the Board or the President to be the chief executive of the Corporation. The officer so designated shall be responsible for the general supervision, direction and control of the business and affairs of the Corporation.

Section 4.05. Chief Financial Officer. The Chief Financial Officer of the Corporation shall be responsible to the Chief Executive Officer for the management and supervision of all financial matters and to provide for the financial growth and stability of the Corporation. He shall attend all regular meetings of the Board of Directors and keep the Directors currently informed concerning all significant financial matters that could impact upon the business or affairs of the Corporation. He shall also perform such additional duties as may be assigned to him from time to time by the Board of Directors or the Chief Executive Officer.

Section 4.06. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. Executive vice presidents, senior vice presidents and vice presidents of the Corporation that are elected by the Board of Directors shall perform such duties as may be assigned to them from time to time by the Chief Executive Officer.

Section 4.07. Chief Legal Officer. The chief legal officer of the Corporation shall be the General Counsel who shall be responsible to the Chief Executive Officer for the management and supervision of all legal matters. The General Counsel shall attend all regular meetings of the Board of Directors and shall keep the Directors currently informed concerning all significant legal matters, particularly those involving important business, legal, moral or ethical issues that could impact upon the business or affairs of the Corporation.

Section 4.08. Secretary. The Secretary shall keep the minutes of the meetings of the stockholders, the Board of Directors and all committee meetings. The Secretary shall be the custodian of the corporate seal and shall affix it to all documents which he is authorized by law or the Board of Directors to sign and seal. The Secretary also shall perform such other duties as may be assigned from time to time by the Chief Executive Officer.

Section 4.09. Treasurer. The Treasurer shall be accountable to the Senior Vice President, Finance, and shall perform such duties as may be assigned to the Treasurer from time to time by the Senior Vice President, Finance.

Section 4.10. Appointed Officers. The Chief Executive Officer may appoint one or more Corporate Staff Vice Presidents, officers of groups or divisions or assistant secretaries, assistant treasurers and such other assistant officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as may be specified from time to time by the Chief Executive Officer.

Section 4.11. Absence or Disability of an Officer. In the case of the absence or disability of an officer of the Corporation the Board of Directors, or any officer designated by it, or the Chief Executive Officer may, for the time of the absence or disability, delegate such officer's duties and powers to any other officer of the Corporation.

Section 4.12. Officers Holding Two or More Offices. The same person may hold any two or more of the above-mentioned offices. However, no officer shall execute, acknowledge or verify any instrument in more than one capacity, if such instrument is required by law, by the Certificate or by these Bylaws, to be executed, acknowledged or verified by any two or more officers.

Section 4.13. Compensation. The Board of Directors shall have the power to fix the compensation of all officers and employees of the Corporation.

Section 4.14. Resignations. Any officer may resign at any time by giving written notice to the Board of Directors, to the Chief Executive Officer, or to the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein unless otherwise determined by the Board of Directors. The acceptance of a resignation by the Corporation shall not be necessary to make it effective.

Section 4.15. Removal. Any officer of the Corporation may be removed, with or without cause, by the affirmative vote of a majority of the entire Board of Directors. Any assistant officer of the Corporation may be removed, with or without cause, by the Chief Executive Officer, or by the Board of Directors.

ARTICLE V

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS

Section 5.01. Right to Indemnification. Each person who was or is made a party, or is threatened to be made a party, to any actual or threatened action, suit, or proceeding, whether civil, criminal, administrative, or investigative (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director, officer, employee, or agent of the Corporation (hereinafter an "indemnitee") shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended, or by other applicable law as then in effect, against all expense, liability, and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) actually and reasonably incurred or suffered by such indemnitee in connection therewith. Any person who was or is made a party, or is threatened to be made a party, to any proceeding by reason of the fact that he or she is or was serving at the request of an executive officer of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan, shall also be considered an indemnitee for the purposes of this Article. The right to indemnification provided by this Article shall apply whether or not the basis of such proceeding is alleged action in an official capacity as such director, officer, employee or agent or in any other capacity while serving as such director, officer, employee or agent. Notwithstanding anything in this Section 5.01 to the contrary, except as provided in Section 5.03 of this Article with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Corporation.

Section 5.02. Advancement of Expenses. (a) The right to indemnification conferred in Section 5.01 shall include the right to have the expenses incurred in defending or preparing for any such proceeding in advance of its final disposition (hereinafter an “advancement of expenses”) paid by the Corporation; provided, however, that an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is to be rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking containing such terms and conditions, including the requirement of security, as the Board of Directors deems appropriate (hereinafter an “undertaking”), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Article or otherwise; and provided, further, that an advancement of expenses shall not be made if the Corporation’s Board of Directors makes a good faith determination that such payment would violate any applicable law. The Corporation shall not be obligated to advance fees and expenses to a director, officer, employee or agent in connection with a proceeding instituted by the Corporation against such person. (b) Notwithstanding anything in Section 5.02(a) to the contrary, the right of employees or agents to advancement of expenses shall be at the discretion of the Board of Directors and on such terms and conditions, including the requirement of security, as the Board of Directors deems appropriate. The Corporation may, by action of its Board of Directors, authorize one or more executive officers to grant rights for the advancement of expenses to employees and agents of the Corporation on such terms and conditions as such officers deem appropriate.

Section 5.03. Right of Indemnitee to Bring Suit. If a claim under Section 5.01 is not paid in full by the Corporation within sixty (60) calendar days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses under Section 5.02 in which case the applicable period shall be thirty (30) calendar days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If the indemnitee is successful in whole or in part in any such suit, the indemnitee shall also be entitled to be paid the expense of prosecuting or defending such suit.

Section 5.04. Nonexclusivity of Rights. (a) The rights to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provisions of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors, or otherwise. Notwithstanding any amendment to or repeal of this Article, any indemnitee shall be entitled to indemnification in accordance with the provisions hereof with respect to any acts or omissions of such indemnitee occurring prior to such amendment or repeal. (b) The Corporation may maintain insurance, at its expense, to protect itself and any past or present director, officer, employee, or agent of the Corporation or another corporation, partnership, joint venture, trust, or other enterprise against any expense, liability, or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability, or loss under the Delaware General Corporation Law. The Corporation may enter into contracts with any indemnitee in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article. (c) The Corporation may without reference to Sections 5.01 through 5.04 (a) and (b) hereof, pay the expenses, including attorneys fees, incurred by any director, officer, employee or agent of the Corporation who is subpoenaed, interviewed or deposed as a witness or otherwise incurs expenses in connection with any civil, arbitration, criminal, or administrative proceeding or governmental or internal investigation to which the Corporation is a party, target, or potentially a party or target, or of any such individual who appears as a witness at any trial, proceeding or hearing to which the Corporation is a party, if the Corporation determines that such payments will benefit the Corporation and if, at the time such expenses are incurred by such individual and paid by the Corporation, such individual is not a party, and is not threatened to be made a party, to such proceeding or investigation.

ARTICLE VI

STOCK

Section 6.01. Certificates. Except as otherwise provided by law, each stockholder shall be entitled to a certificate or certificates which shall represent and certify the number and class (and series, if appropriate) of shares of stock owned by him in the Corporation. Each certificate shall be signed in the name of the Corporation by the Chairman of the Board, or the President, or a Vice President, together with the Secretary, or an Assistant Secretary, or the Treasurer or Assistant Treasurer. Any or all of the signatures on any certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

Section 6.02. Transfer of Shares. Shares of stock shall be transferable on the books of the Corporation only by the holder thereof, in person or by his duly authorized attorney, upon the surrender of the certificate representing the shares to be transferred, properly endorsed, to the Corporation's registrar if the Corporation has a registrar. The Board of Directors shall have power and authority to make such other rules and regulations concerning the issue, transfer and registration of certificates of the Corporation's stock as it may deem expedient.

Section 6.03. Transfer Agents and Registrars. The Corporation may have one or more transfer agents and one or more registrars of its stock whose respective duties the Board of Directors or the Secretary may, from time to time, define. No certificate of stock shall be valid until countersigned by a transfer agent, if the Corporation has a transfer agent, or until registered by a registrar, if the Corporation has a registrar. The duties of transfer agent and registrar may be combined.

Section 6.04. Stock Ledgers. Original or duplicate stock ledgers, containing the names and addresses of the stockholders of the Corporation and the number of shares of each class of stock held by them, shall be kept at the principal executive office of the Corporation or at the office of its transfer agent or registrar.

Section 6.05. Record Dates. The Board of Directors shall fix, in advance, a date as the record date for the purpose of determining stockholders entitled to notice of, or to vote at, any meeting of stockholders or any adjournment thereof, or stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or in order to make a determination of stockholders for any other proper purpose. Such date in any case shall be not more than sixty (60) days, and in case of a meeting of stockholders, not less than ten (10) days, prior to the date on which the particular action, requiring such determination of stockholders is to be taken. Only those stockholders of record on the date so fixed shall be entitled to any of the foregoing rights, notwithstanding the transfer of any such stock on the books of the Corporation after any such record date fixed by the Board of Directors.

Section 6.06. New Certificates. In case any certificate of stock is lost, stolen, mutilated or destroyed, the Board of Directors may authorize the issuance of a new certificate in place thereof upon such terms and conditions as it may deem advisable; or the Board of Directors may delegate such power to any officer or officers or agents of the Corporation; but the Board of Directors or such officer or officers or agents, in their discretion, may refuse to issue such a new certificate unless the Corporation is ordered to do so by a court of competent jurisdiction.

ARTICLE VII

RESTRICTIONS ON SECURITIES REPURCHASES

Section 7.01. Restrictions on Securities Repurchases.

1. **Vote Required for Certain Acquisition of Securities.** Except as set forth in Subsection 2 of this Section 7.01, in addition to any affirmative vote of stockholders required by any provision of law, the Certificate of

Incorporation or Bylaws of this Corporation, or any policy adopted by the Board of Directors, neither the Corporation nor any Subsidiary shall knowingly effect any direct or indirect purchase or other acquisition of any equity security of a class of securities which is registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), issued by the Corporation at a price which is in excess of the highest Market Price of such equity security on the largest principal national securities exchange in the United States on which such security is listed for trading on the date that the understanding to effect such transaction is entered into by the Corporation (whether or not such transaction is concluded or a written agreement relating to such transaction is executed on such date, and such date to be conclusively established by determination of the Board of Directors), from any Interested Person, without the affirmative vote of the holders of the Voting Shares representing at least a majority of the aggregate voting power of all outstanding voting shares, excluding Voting Shares beneficially owned by such Interested Person, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or any agreement with any national securities exchange, or otherwise.

2. When a Vote is Not Required. The provisions of Subsection 1 of this Section 7.01 shall not be applicable with respect to:

a. any purchase, acquisition, redemption or exchange of such equity securities, the purchase, acquisition, redemption or exchange of which is provided for in the Corporation's Certificate of Incorporation;

b. any purchase or other acquisition of equity securities made as part of a tender or exchange offer by the Corporation to purchase securities of the same class made on the same terms to all holders of such securities and complying with the applicable requirements of the Exchange Act of 1934, as amended and the rules and regulations thereunder (or any successor provisions to such Act, rules or regulations);

c. any purchase or acquisition of equity securities made pursuant to an open market purchase program which has been approved by the Board of Directors.

3. Certain Definitions. For the purpose of this Section:

a. "Affiliate" and "Associate" shall have their respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on January 1, 2001.

b. "Beneficial Owner" and "Beneficial Ownership" shall have the meanings ascribed to such terms in Rule 13d-3 and Rule 13d-5 of the General Rules and Regulations under the Exchange Act, as in effect on January 1, 2001.

c. "Interested person" shall mean any person (other than the Corporation or any subsidiary) that is the direct or indirect Beneficial Owner of five percent (5%) or more of the aggregate voting power of the Voting Shares, and any Affiliate or Associate of any such person. For the purpose of determining whether a person is an Interested Person, the outstanding Voting Shares include unissued shares of voting stock of the Corporation of which the Interested Person is the Beneficial Owner, but shall not include any other shares of voting stock of the Corporation which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise or conversion of rights, warrants or options, or otherwise to any person who is not the Interested Person.

d. "Market Price" of shares of the class of equity security of the Corporation on any day shall mean the highest sale price (regular way) of shares of such class of such equity security on such day, or, if that day is not a trading day, on the trading day immediately preceding such day, on the largest principal national securities exchange on which such class of stock is then listed or admitted to trading, or if not listed or admitted to trading on any national securities exchange, then the highest reported sale price for such shares in the over-the-counter market as reported on the NASDAQ National Market System, or if such sale price shall not be reported thereon, the highest bid price so reported, or, if such price shall not be reported thereon, as the same shall be reported by the National Quotation Bureau, Incorporated, or if the price is not determinable as set forth above, as determined in good faith by the Board of Directors.

e. "Person" shall mean any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, as well as any syndicate or group deemed to be a person pursuant to Section 13(d)(3) of the Exchange Act, as in effect on January 1, 2001.

f. "Subsidiary" shall mean any company or entity of which the Corporation owns, directly or indirectly, (i) a majority of the outstanding shares of equity securities, or (ii) shares having a majority of the voting power represented by all of the outstanding Voting Stock of such company entitled to vote generally in the election of directors. For the purpose of determining whether a company is a Subsidiary, the outstanding voting stock and shares of equity securities thereof shall include unissued shares of which The Corporation is the beneficial owner but, except for the purpose of determining whether a company is a Subsidiary for the purpose of Subsection 3(c) hereof shall not include any shares which may be issuable pursuant to any agreement, arrangement, or understanding, or upon the exercise of conversion rights, warrants or options, or otherwise to any Person who is not the Corporation.

g. "Voting shares" shall mean the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors.

ARTICLE VIII

SUNDRY PROVISIONS

Section 8.01. Fiscal Year. The fiscal year of the Corporation shall end on the 31st day of December of each year.

Section 8.02. Seal. The seal of the Corporation shall bear the name of the Corporation and the words "Delaware" and "Incorporated January 16, 2001."

Section 8.03. Voting of Stock in Other Corporations. Any shares of stock in other corporations or associations, which may from time to time be held by the Corporation, may be represented and voted at any of the stockholders' meetings thereof by the Chief Executive Officer or his designee. The Board of Directors, however, may by resolution appoint some other person or persons to vote such shares, in which case such person or persons shall be entitled to vote such shares upon the production of a certified copy of such resolution.

Section 8.04. Amendments. These Bylaws may be adopted, repealed, rescinded, altered or amended only as provided in Articles Fifth and Sixth of the Certificate.

February 17, 2004

NORTHROP GRUMMAN CORPORATION
1995 STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS,
AS AMENDED

Section 1: Purpose

The Northrop Grumman Corporation 1995 Stock Option Plan for Non-Employee Directors (“Plan”) has been adopted to promote the longer-term growth and financial success of the Company by (1) enhancing its ability to attract and retain nonaffiliated individuals of outstanding ability as members of the Board and (2) promoting a greater identity of interest between non-employee members of the Board and shareholders.

Section 2: Definitions

As used in the Plan, the following terms have these respective meanings:

- (a) “Board” means the Company’s Board of Directors.
- (b) “Common Stock” means the Company’s Common Stock, par value \$1.00 per share, or any successor stock issued by the Company in replacement or conversion thereof.
- (c) “Company” means Northrop Grumman Corporation, a corporation established under the laws of the State of Delaware.
- (d) “Fair Market Value” means for any given day the closing sales price on such date of a share of Common Stock as reported on the principal securities exchange on which such shares of Common Stock are then listed or admitted to trading or as reported on the National Association of Securities Dealers Automated Quotation (“NASDAQ”) National Market System, if not so listed or admitted. If no sales of Common Stock were made on such exchange or reported on the NASDAQ system on that date, the closing price of a share of Common Stock for the preceding day of such exchange or as reported by NASDAQ shall be substituted.
- (e) “Grant Date” means the third business day following the Company’s Annual Meeting of Shareholders.
- (f) “Participant” means for each Grant Date any director of the Company who is not an employee of the Company or any subsidiary or affiliate of the Company on the applicable Grant Date.
- (g) “Plan” means the Northrop Grumman Corporation 1995 Stock Option Plan for Non-Employee Directors.
- (h) “Stock Option” means a right to purchase shares of Common Stock at the applicable Fair Market Value.
- (i) “1934 Act” means the Securities Exchange Act of 1934.

Section 3: Effective Date

The Plan shall be effective beginning on the date it is approved by the Company’s shareholders and shall remain in effect for each applicable Grant Date until terminated by the Board. If the Plan is terminated, the terms of the Plan shall continue to apply to all outstanding Stock Options granted prior to such termination.

Section 4: Plan Operation

The Plan is intended to meet the requirements of Rule 16b-3(c)(2)(ii) adopted under the 1934 Act and accordingly is intended to be self-governing. To this end, the Plan is intended to require no discretionary action by any administrative body with regard to any transaction under the Plan except as specified in Section 5(b) of the Plan.

Section 5: Common Stock Available for Stock Options

- (a) *Number of Shares.* A maximum of 300,000 shares of Common Stock may be issued upon the exercise of Stock Options granted under the Plan. Shares of Common Stock shall not be deemed issued until the applicable Stock Option has been exercised and, accordingly, any shares of Common Stock represented by Stock Options which expire unexercised or which are cancelled shall remain available for issuance under the Plan.
- (b) *Adjustments.* The Board, as it deems appropriate to meet the intent of the Plan, may make such adjustments to the number of shares available under the Plan to the number of Stock Options to purchase shares to be granted on each Grant Date and to any outstanding Stock Options, provided such adjustments are consistent with the effect on other shareholders arising from any corporate restructuring or similar action. Such actions may include, but are not limited to, any stock dividend, stock split, combination or exchange of shares, merger, consolidation, recapitalization, spin-off or other distribution (other than normal cash dividends) of Company assets to shareholders, or any other change affecting the Common Stock. The Board may also, when similarly appropriate, make such adjustment in the exercise price of outstanding Stock Options as it deems necessary to preserve the rights of Participants under the Plan.

Section 6: Stock Option Terms

- (a) *Granting of Stock Options.* Each participant shall be granted a Stock Option to purchase 3000 shares on each Grant Date that the Plan is in effect.
- (b) *Duration and Exercisability.* Each Stock Option shall have a term of ten years and shall become immediately exercisable on the Grant Date.
- (c) *Termination of Directorship.* When a Participant ceases to be a member of the Board, each Stock Option or portions thereof, held by such Participant shall continue to be exercisable for the lesser of five years or until the end of the original term. Notwithstanding the foregoing, if a Participant is terminated as a member of the Board for cause, any exercisable Stock Option shall cease to be exercisable on the date of termination.
- (d) *Exercise of Stock Options.* Stock Options may be exercised by giving written notice to the Secretary of the Company stating the number of shares of Common Stock with respect to which the Stock Option is being exercised and tendering payment therefor. Payment for shares of Common Stock shall be made in full at the time that a Stock Option, or any part thereof, is exercised. Payment may be made (i) in cash, or (ii) by delivery of shares of Common Stock of the Company held by the Participant, which shares shall be valued for purposes of payment, at their Fair Market Value on the date of payment, or (iii) by a combination of (i) and (ii) above, or (iv) by ensuring receipt by the Company of an executed exercise notice coupled with an irrevocable instruction to a broker to execute a "same day" sale and deliver the sale exercise price to the Company, or (v) by directing the Company to withhold from the shares that would otherwise be issued upon exercise of the Stock Option that number of whole shares having a fair market value equal to the aggregate option price for the optioned shares issuable on exercise of the Stock Option. Shares of the Company's Common Stock so withheld shall be valued at their Fair Market Value at the close of the last business day immediately preceding the date of exercise of the Stock Option. The Participant agrees that, in the event the exercise of any Stock Options granted in this Plan or the disposition of shares following exercise of such options results in the Participant's realization of income which for federal, state or local income tax purposes is, in the opinion of counsel for the Company, subject to withholding of tax at source by the Company, the Participant will pay to the Company an amount equal to such withholding tax (i) in cash or (ii) by delivery of Common Stock already owned by the Participant prior to delivery to the Participant of certificates representing the shares purchased or transferred or (iii) upon issuance of any stock under this Plan, allow the Company to withhold such shares otherwise issuable by the amount necessary to satisfy the Participant's federal, state and local tax withholding requirements.

Section 7: General Provisions

- (a) *Non-Transferability of Stock Options.* So long as restrictions on transferability of Stock Options are required by Rule 16b-3 or any successor rule adopted pursuant to the 1934 Act, a Stock Option granted under the Plan may not be transferred otherwise than as permitted by Rule 16b-3 or any successor rule. Rule 16b-3 currently permits transfers only by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act, or the rules thereunder.
- (b) *Documentation of Grants.* Stock Options shall be evidenced by written agreements.
- (c) *Plan Amendment.* The Board may amend or terminate the Plan provided that (i) stockholder approval shall be required for any amendment whenever such approval is necessary to allow this Plan to meet the conditions of Rule 16b-3 (or any successor rule) under the 1934 Act, and (ii) no amendment may impair any Participant's rights with respect to an outstanding Stock Option without the consent of the Participant. The Plan may not be amended more than once every six months, other than to comport with the changes in the Internal Revenue Code, the Employee Retirement Income Security Act or the rules thereunder.
- (d) *Future Rights.* Neither the Plan nor the granting of Stock Options nor any such action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the Company shall retain a Participant for any period of time, or at any particular rate of compensation as a member of the Board. Nothing in this Plan shall in any way limit or effect the right of the Board or the shareholders of the Company to remove any Participant from the Board or otherwise terminate his or her service as a member of the Board.
- (e) *Governing Law.* The validity, construction and effect of the Plan and any such actions taken under or relating to the Plan shall be determined in accordance with the laws of the State of California and applicable Federal law.

As in Effect May, 2004

NORTHROP GRUMMAN CORPORATION
TERMS AND CONDITIONS APPLICABLE TO 2004 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 2004. If you were granted a stock option by the Company in 2004, 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 ($\frac{1}{4}$) of the total number of shares of Company Common Stock subject to the Option (subject to adjustment as provided in Section 5.1) shall vest and become exercisable upon each of the first, second, third and fourth anniversaries of the Grant Date.

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

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

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

2. Termination of Option; Termination of Employment.

2.1 General. The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void at the close of business on the last business day preceding the tenth (10th) anniversary of the Grant Date (the “Expiration Date”). The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void prior to the Expiration Date if and when (a) the Option terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases to be an employee of the Company or one of its subsidiaries.

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

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

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

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

3. Non-Transferability and Other Restrictions.

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

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

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

the date that the shares are actually recorded in such form for the benefit of the Grantee) issued upon the exercise of the Option.

5. Adjustments; Change in Control.

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

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

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

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

5.3 Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the Option following the Change in Control, or if for any other reason the Option would not continue after the Change in Control, then upon the Change in Control the outstanding and previously unvested portion of the Option shall vest fully and completely, any and all restrictions on exercisability or otherwise shall lapse, and it shall be fully exercisable. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting or exercisability of the Option shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the Option. If the Option is fully vested or becomes fully vested as provided in this Section 5.3 but is not exercised prior to a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the Option following the Change in Control, or if for any other reason the Option would not continue after the Change in Control, then the Committee may provide for the settlement in cash of the award (such settlement to be calculated as though the Option was exercised

simultaneously with the Change in Control and based upon the then Fair Market Value of a share of Common Stock). The Option, if so settled by the Committee, shall automatically terminate. If, in such circumstances, the Committee does not provide for the cash settlement of the Option, then upon the Change in Control the Option shall terminate, subject to any provision that has been made by the Committee through a plan of reorganization or otherwise for the survival, substitution or exchange of the Option; provided that the Grantee shall be given reasonable notice of such intended termination and an opportunity to exercise the Option prior to or upon the Change in Control. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the Option pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the Option; provided, however, that, the Committee may reinstate the original terms of the Option if the related event does not actually occur. The provisions in this Section 5.3 for the early termination of the Option in connection with a Change in Control of the Company supercede any other provision hereof that would otherwise allow for a longer Option term.

6. Tax Matters.

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

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

7. Committee Authority.

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

8. Plan; Amendment.

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

9. Definitions.

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

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

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

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

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

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

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

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

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

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

"**Early Retirement**" means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause) and other than a Normal Retirement.

"**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).

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

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

- (i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of

the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

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

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

LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

July 28, 2004

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California

We have made a review, in accordance with standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended June 30, 2004 and 2003, as indicated in our report dated July 28, 2004; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-03959, 333-68003, 333-67266, 333-61936, 333-100179, 333-100180, 333-103429, and 333-107734 on Form S-8; Registration Statement Nos. 333-78251, 333-85633, 333-71290, 333-77056 on Form S-3; and Registration Statement Nos. 333-40862, 333-54800, and 333-83672 on Form S-4.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

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

I, Ronald D. Sugar, Chairman, Chief Executive Officer and President, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) (Omitted pursuant to SEC Release No. 33-8238)
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 29, 2004

/S/ RONALD D. SUGAR

Ronald D. Sugar
Chairman, Chief Executive Officer and President

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

I, Charles H. Noski, Corporate Vice President and Chief Financial Officer, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) (Omitted pursuant to SEC Release No. 33-8238)
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 29, 2004

/S/ CHARLES H. NOSKI

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 Quarterly Report of Northrop Grumman Corporation (the "Company") on Form 10-Q for the period ending June 30, 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 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 29, 2004

/s/ **Ronald D. Sugar**

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 Quarterly Report of Northrop Grumman Corporation (the "Company") on Form 10-Q for the period ending June 30, 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 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 29, 2004

/s/ **Charles H. Noski**

Charles H. Noski
Corporate Vice President and Chief Financial Officer