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, 2008

or

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

Commission file number 1-16411

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No o

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

Large accelerated filer ☒	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ☒

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 25, 2008, 337,531,256 shares of common stock were outstanding.

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Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

$ in millions, except per share	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Sales and Service Revenues				
Product sales	**$4,849**	$4,460	**$ 9,243**	$ 8,646
Service revenues	**3,779**	3,418	**7,109**	6,546
Total sales and service revenues	**8,628**	7,878	**16,352**	15,192
Cost of Sales and Service Revenues				
Cost of product sales	**3,793**	3,486	**7,522**	6,696
Cost of service revenues	**3,232**	2,821	**6,025**	5,528
General and administrative expenses	**797**	808	**1,535**	1,515
Operating income	**806**	763	**1,270**	1,453
Interest expense	**(72)**	(83)	**(149)**	(172)
Other, net	**5**	(9)	**27**	(10)
Earnings from continuing operations before income taxes	**739**	671	**1,148**	1,271
Federal and foreign income taxes	**256**	199	**402**	405
Earnings from continuing operations	**483**	472	**746**	866
Income (Loss) from discontinued operations, net of tax	**12**	(12)	**13**	(19)
Net earnings	**$ 495**	$ 460	**$ 759**	$ 847
Basic Earnings (Loss) Per Share				
Continuing operations	**$ 1.42**	$ 1.37	**$ 2.20**	$ 2.52
Discontinued operations	**.04**	(.03)	**.04**	(.06)
Basic earnings per share	**$ 1.46**	$ 1.34	**$ 2.24**	$ 2.46
Weighted-average common shares outstanding, in millions	**339.0**	343.3	**338.7**	344.3
Diluted Earnings (Loss) Per Share				
Continuing operations	**$ 1.40**	$ 1.35	**$ 2.15**	$ 2.46
Discontinued operations	**.04**	(.04)	**.04**	(.05)
Diluted earnings per share	**$ 1.44**	$ 1.31	**$ 2.19**	$ 2.41
Weighted-average diluted shares outstanding, in millions	**344.1**	355.3	**346.7**	356.8

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

NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited)

$ in millions	**June 30, 2008**	December 31, 2007
Assets:		
Cash and cash equivalents	**$ 581**	$ 963
Accounts receivable, net of progress payments of $43,630 in 2008 and $40,475 in 2007	**4,325**	3,790
Inventoried costs, net of progress payments of $1,560 in 2008 and $1,345 in 2007	**1,089**	1,000
Deferred income taxes	**503**	542
Prepaid expenses and other current assets	**596**	502
Total current assets	**7,094**	6,797
Property, plant, and equipment, net of accumulated depreciation of $3,608 in 2008 and $3,424 in 2007	**4,651**	4,690
Goodwill	**17,586**	17,672
Other purchased intangibles, net of accumulated amortization of $1,739 in 2008 and $1,687 in 2007	**992**	1,074
Pension and postretirement benefits asset	**2,125**	2,080
Other assets	**1,019**	1,060
Total assets	**$33,467**	$33,373
Liabilities:		
Notes payable to banks	**$ 23**	$ 26
Current portion of long-term debt	**74**	111
Trade accounts payable	**1,727**	1,890
Accrued employees' compensation	**1,283**	1,175
Advance payments and billings in excess of costs incurred	**1,825**	1,563
Other current liabilities	**1,659**	1,667
Total current liabilities	**6,591**	6,432
Long-term debt, net of current portion	**3,844**	3,918
Mandatorily redeemable convertible preferred stock		350
Pension and postretirement benefits liability	**3,093**	3,008
Other long-term liabilities	**2,076**	1,978
Total liabilities	**15,604**	15,686
Commitments and Contingencies (Note 10)		
Shareholders' Equity:		
Common stock, $1 par value; 800,000,000 shares authorized; issued and outstanding: 2008—337,496,845; 2007—337,834,561	**337**	338
Paid-in capital	**10,335**	10,661
Retained earnings	**7,877**	7,387
Accumulated other comprehensive loss	**(686)**	(699)
Total shareholders' equity	**17,863**	17,687
Total liabilities and shareholders' equity	**$33,467**	$33,373

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

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
$ in millions	**2008**	2007	**2008**	2007
Net earnings	**$495**	$460	**$759**	$847
Other comprehensive income (loss)				
Change in cumulative translation adjustment	**5**	2	**8**	4
Change in unrealized loss on marketable securities, net of tax	**(1)**		**(3)**	
Change in unamortized benefit plan costs, net of tax	**4**	7	**8**	15
Other comprehensive income, net of tax	**8**	9	**13**	19
Comprehensive income	**$503**	$469	**$772**	$866

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

$ in millions	Six Months Ended June 30 2008	2007
Operating Activities		
Sources of Cash – Continuing Operations		
Cash received from customers		
Progress payments	**$ 3,319**	$ 3,261
Collections on billings	**12,983**	12,089
Proceeds from insurance carriers related to operations	**5**	125
Other cash receipts	**32**	12
Total sources of cash-continuing operations	**16,339**	15,487
Uses of Cash – Continuing Operations		
Cash paid to suppliers and employees	**(14,855)**	(13,619)
Interest paid, net of interest received	**(153)**	(180)
Income taxes paid, net of refunds received	**(482)**	(456)
Excess tax benefits from stock-based compensation	**(45)**	(61)
Other cash payments	**(7)**	(12)
Total uses of cash-continuing operations	**(15,542)**	(14,328)
Cash provided by continuing operations	**797**	1,159
Cash provided by (used in) discontinued operations	**4**	(18)
Net cash provided by operating activities	**801**	1,141
Investing Activities		
Proceeds from sale of business, net of cash divested	**175**	
Payment for business purchased, net of cash acquired		(584)
Proceeds from sale of property, plant, and equipment	**9**	10
Additions to property, plant, and equipment	**(277)**	(298)
Payments for outsourcing contract and related software costs	**(77)**	(80)
Proceeds from insurance carriers related to capital expenditures		3
Decrease in restricted cash	**37**	34
Other investing activities, net	**1**	(2)
Net cash used in investing activities	**(132)**	(917)
Financing Activities		
Net payments under lines of credit	**(3)**	(63)
Principal payments of long-term debt	**(109)**	(66)
Proceeds from exercises of stock options and issuance of common stock	**82**	196
Dividends paid	**(261)**	(254)
Excess tax benefits from stock-based compensation	**45**	61
Common stock repurchases	**(805)**	(592)
Net cash used in financing activities	**(1,051)**	(718)
Decrease in cash and cash equivalents	**(382)**	(494)
Cash and cash equivalents, beginning of period	**963**	1,015
Cash and cash equivalents, end of period	**$ 581**	$ 521

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$ in millions	Six Months Ended June 30 2008	2007
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities		
Net Earnings	**$ 759**	$ 847
Adjustments to reconcile to net cash provided by operating activities		
Depreciation	**276**	276
Amortization of assets	**109**	69
Stock-based compensation	**83**	78
Excess tax benefits from stock-based compensation	**(45)**	(61)
Loss on disposals of property, plant, and equipment	**2**	12
Amortization of long-term debt premium	**(5)**	(6)
Pre-tax gain on sale of business	**(58)**	
Decrease (increase) in		
Accounts receivable	**(3,691)**	(2,949)
Inventoried costs	**(304)**	(97)
Prepaid expenses and other current assets	**(40)**	10
Increase (decrease) in		
Progress payments	**3,370**	3,020
Accounts payable and accruals	**215**	(152)
Deferred income taxes	**121**	10
Income taxes payable	**(84)**	(20)
Retiree benefits	**46**	98
Other non-cash transactions, net	**43**	24
Cash provided by continuing operations	**797**	1,159
Cash provided by (used in) discontinued operations	**4**	(18)
Net cash provided by operating activities	**$ 801**	$ 1,141
Non-Cash Investing and Financing Activities		
Sale of business		
Cash received for business sold	**$ 175**	
Pre-tax gain on sale of business	**(58)**	
Fair value of assets sold, including goodwill	**(135)**	
Liabilities assumed by purchaser	**$ (18)**	
Purchase of business		
Fair value of assets acquired, including goodwill		$ 688
Cash paid for business purchased		(584)
Liabilities assumed		$ 104
Mandatorily redeemable convertible preferred stock converted or redeemed into common stock	**$ 350**	
Capital leases		$ 21

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

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

$ in millions, except per share	Six Months Ended June 30 **2008**	2007
Common Stock		
At beginning of period	**$ 338**	$ 346
Common stock repurchased	**(10)**	(8)
Conversion and redemption of preferred stock	**6**	
Employee stock awards and options	**3**	6
At end of period	**337**	344
Paid-in Capital		
At beginning of period	**10,661**	11,346
Common stock repurchased	**(795)**	(584)
Conversion and redemption of preferred stock	**344**	
Employee stock awards and options	**125**	258
At end of period	**10,335**	11,020
Retained Earnings		
At beginning of period	**7,387**	6,183
Net earnings	**759**	847
Adoption of new accounting standards	**(3)**	(66)
Dividends	**(266)**	(261)
At end of period	**7,877**	6,703
Accumulated Other Comprehensive Loss		
At beginning of period	**(699)**	(1,260)
Adjustment to deferred tax benefit recorded on adoption of SFAS No. 158		(46)
Other comprehensive income	**13**	19
At end of period	**(686)**	(1,287)
Total shareholders' equity	**$17,863**	$16,780
Cash dividends per share	**$ .77**	$ .74

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. BASIS OF PRESENTATION

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

The accompanying unaudited condensed consolidated financial statements of the company have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. These statements include all adjustments considered necessary by management for a fair presentation of the consolidated financial position, results of operations, and cash flows. The results reported in these financial statements are not necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the audited Consolidated Financial Statements, including the notes thereto contained in the company's 2007 Annual Report on Form 10-K, updated by the Form 8-K filed on July 29, 2008.

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

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

Accumulated Other Comprehensive Loss – The components of accumulated other comprehensive loss are as follows:

$ in millions	**June 30, 2008**	December 31, 2007
Cumulative translation adjustment	**$ 42**	$ 34
Unrealized gain on marketable securities, net of tax		3
Unamortized benefit plan costs, net of tax benefit of $466 as of June 30, 2008, and $470 as of December 31, 2007	**(728)**	(736)
Total accumulated other comprehensive loss	**$(686)**	$(699)

Financial Statement Reclassifications – Certain amounts in the prior period financial statements and related notes have been reclassified to conform to the 2008 presentation, due to the inclusion of interest income as a component of Other, net.

2. NEW ACCOUNTING STANDARDS

Adoption of New Accounting Standards
The disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 157 – *Fair Value Measurements*, which took effect on January 1, 2008, are presented in Note 3. On January 1, 2009, the company will implement the previously-deferred provisions of SFAS No. 157 for nonfinancial assets and liabilities recorded

at fair value as required. Management does not believe that the remaining provisions will have a material effect on the company's consolidated financial position or results of operations when they become effective.

As previously disclosed, during the six months ended June 30, 2007, an adjustment was made to reduce retained earnings by $66 million upon adoption of Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 – *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (see Note 13).

Standards Issued But Not Yet Effective
In December 2007, the FASB issued SFAS No. 141(R) – *Business Combinations*. SFAS No. 141(R) expands the definition of a business and establishes the use of the "acquisition method" for business combinations which requires the measurement and recognition of all assets and liabilities (including goodwill) of an acquired business at fair value on the acquisition date, which is the date that the acquirer obtains control of the business. Among other things, the standard establishes new guidelines for the expensing of transaction and restructuring costs, fair value measurement of contingent consideration in earnings, and capitalization of in-process research and development. The standard also modifies the presentation and recording of deferred taxes and establishes the conditions under which a bargain purchase could result in a gain. SFAS No. 141(R)) will be applied prospectively to business combinations with acquisition dates on or after January 1, 2009. Adoption is not expected to materially impact the company's consolidated financial position or results of operations directly when it becomes effective, as the only impact that the standard will have on recorded amounts at that time relates to disposition of uncertain tax positions related to prior acquisitions. Following adoption, the resolution of such items at values that differ from recorded amounts will be adjusted through earnings, rather than through goodwill. Adoption of this statement is, however, expected to have a significant effect on how acquisition transactions subsequent to January 1, 2009, are reflected in the financial statements.

In December 2007, the FASB issued SFAS No. 160 – *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin (ARB) No. 51.* SFAS No. 160 requires presentation of non-controlling interests in consolidated subsidiaries separately within equity in the consolidated statements of financial position as well as the separate presentation within the consolidated statement of operations of earnings attributable to the parent and non-controlling interest. Accounting for changes in a parent's ownership interest will be at fair value and if the parent retains control of the subsidiary, any adjustments will be made through equity, while transactions where control changes and the subsidiary is deconsolidated will be accounted for through earnings. SFAS No. 160 is effective for the company beginning January 1, 2009. Adoption of this statement is not expected to have a material impact on the company's consolidated financial position or results of operations when it becomes effective, but may significantly affect the accounting for noncontrolling (or minority) interests from that date forward.

Other new pronouncements issued but not effective until after June 30, 2008, are not expected to have a significant effect on the company's consolidated financial position or results of operations.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of June 30, 2008, there were marketable equity securities of $64 million included in prepaid expenses and other current assets and $169 million of marketable debt and equity securities included in other long-term assets, all of which are recorded at fair value based upon quoted market prices in active markets. These investments can be liquidated without restriction. Other financial instruments recorded at fair value based on significant other observable inputs are not material. As of June 30, 2008, the company has no other assets or liabilities that are measured at fair value on a recurring basis.

4. DIVIDENDS ON COMMON STOCK AND CONVERSION OF PREFERRED STOCK

Dividends on Common Stock – In April 2008, the company's board of directors approved an increase to the quarterly common stock dividend, from $.37 per share to $.40 per share, for shareholders of record as of June 2, 2008.

On February 21, 2007, the company's board of directors approved an increase to the quarterly common stock dividend, from $.30 per share to $.37 per share, effective with the first quarter 2007 dividend.

Conversion of Preferred Stock – On February 20, 2008, the company's Board of Directors approved the redemption of the 3.5 million shares of mandatorily redeemable convertible preferred stock on April 4, 2008. Prior to the redemption date, substantially all of the preferred shares were converted into common stock at the election of shareholders. All remaining non-converted preferred shares were redeemed by the company on the redemption date. As a result of the conversion and redemption the company issued approximately 6.4 million shares of common stock.

5. BUSINESS ACQUISITIONS AND DISPOSITIONS

Acquisitions

Essex – In January 2007, the company acquired Essex Corporation (Essex) for approximately $590 million in cash, including transaction costs of $15 million, and the assumption of debt totaling $23 million. Essex provides signal processing services and products, and advanced optoelectronic imaging for U.S. government intelligence and defense customers. The operating results of Essex are reported in the Mission Systems segment. The assets, liabilities, and results of operations of Essex were not material to the company's consolidated financial position or results of operations, and thus pro-forma information is not presented.

AMSEC – In July 2007, the company and Science Applications International Corporation (SAIC) reorganized their joint venture, AMSEC, LLC (AMSEC), by dividing AMSEC along customer and product lines. Under the reorganization plan, the company retained the ship engineering, logistics and technical service businesses under the AMSEC name (the AMSEC Businesses) and, in exchange, SAIC received the aviation, combat systems and strike force integration services businesses from AMSEC (the Divested Businesses). Prior to the reorganization, including the three and six month periods ended June 30, 2007, the company accounted for AMSEC under the equity method. For the three and six month periods ended June 30, 2007, the AMSEC Businesses' sales were an estimated $50 million and $100 million, respectively, with an operating income rate of approximately 6 percent. During the three and six months ended June 30, 2008, the results of operations of the AMSEC Businesses were consolidated.

Dispositions

Electro-Optical Systems – In April 2008, the company sold its Electro-Optical Systems business for $175 million in cash to L-3 Communications Corporation and recognized a gain of $19 million, net of taxes of $39 million. Electro-Optical Systems, formerly a part of the Electronics segment, produces night vision and applied optics products and had sales of approximately $53 million through April 2008, and $74 million for the six months ended June 30, 2007. Operating results of this business are reported as discontinued operations in the condensed consolidated statements of operations for all periods presented.

ITD – During the second quarter of 2007, management announced its decision to exit the remaining Interconnect Technologies (ITD) business reported within the Electronics segment. Sales for this business for the six months ended June 30, 2007, were $8 million. The shut-down was completed during the third quarter of 2007 and costs associated with the shutdown were not material. The results of this business are reported as discontinued operations in the condensed consolidated statements of operations for all applicable periods presented.

6. SEGMENT INFORMATION

The company is aligned into seven segments categorized into four primary businesses. The Mission Systems, Information Technology, and Technical Services segments are presented as Information & Services. The

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Integrated Systems and Space Technology segments are presented as Aerospace. The Electronics and Shipbuilding segments are each presented as separate businesses.

During the second quarter of 2008, the company transferred certain programs and assets from the missiles business in the Mission Systems segment to the Space Technology segment. This transfer allows Mission Systems to focus on the rapidly growing command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) business, and the missiles business will be an integrated element of the company's Aerospace business growth strategy.

In January 2008, the Newport News and Ship Systems businesses were realigned into a single segment called Northrop Grumman Shipbuilding. Previously, these businesses were separate operating segments which were aggregated into a single segment for financial reporting purposes. In addition, certain Electronics businesses were transferred to Mission Systems during the first quarter of 2008.

In January 2007, certain programs and business areas were transferred between Information Technology, Mission Systems, Space Technology, and Technical Services.

Sales and segment operating income information in the following tables have been revised, where applicable, to reflect the above realignments for all periods presented.

The following table presents segment sales and service revenues for the three and six months ended June 30, 2008, and 2007.

	Three Months Ended June 30		Six Months Ended June 30	
$ in millions	**2008**	2007	**2008**	2007
Sales and Service Revenues				
Information & Services				
Mission Systems	**$1,388**	$1,288	**$ 2,686**	$ 2,447
Information Technology	**1,215**	1,143	**2,300**	2,181
Technical Services	**572**	551	**1,077**	1,071
Total Information & Services	**3,175**	2,982	**6,063**	5,699
Aerospace				
Integrated Systems	**1,358**	1,225	**2,698**	2,506
Space Technology	**1,118**	1,067	**2,140**	2,057
Total Aerospace	**2,476**	2,292	**4,838**	4,563
Electronics	**1,675**	1,628	**3,230**	3,156
Shipbuilding	**1,688**	1,359	**2,952**	2,515
Intersegment eliminations	**(386)**	(383)	**(731)**	(741)
Total sales and service revenues	**$8,628**	$7,878	**$16,352**	$15,192

The following table presents segment operating income reconciled to total operating income for the three and six months ended June 30, 2008, and 2007.

	Three Months Ended June 30		Six Months Ended June 30	
$ in millions	**2008**	2007	**2008**	2007
Operating Income				
Information & Services				
Mission Systems	**$133**	$142	**$ 261**	$ 245
Information Technology	**82**	90	**171**	176
Technical Services	**36**	32	**62**	60
Total Information & Services	**251**	264	**494**	481
Aerospace				
Integrated Systems	**143**	149	**313**	309
Space Technology	**93**	90	**175**	163
Total Aerospace	**236**	239	**488**	472
Electronics	**202**	189	**411**	381
Shipbuilding	**126**	134	**(92)**	213
Intersegment eliminations	**(31)**	(28)	**(59)**	(57)
Total segment operating income	**784**	798	**1,242**	1,490
Non-segment factors affecting operating income				
Unallocated expenses	**(43)**	(64)	**(75)**	(96)
Net pension adjustment	**69**	28	**128**	61
Royalty income adjustment	**(4)**	1	**(25)**	(2)
Total operating income	**$806**	$763	**$1,270**	$1,453

Shipbuilding First Quarter 2008 Earnings Charge Relating to LHD-8 Contract Performance – LHD-8 is an amphibious assault ship under construction at one of the Gulf Coast shipyards. The LHD-8 contract features significant enhancements compared with earlier ships of the class and will incorporate major new systems, including a gas turbine engine propulsion system, a new electrical generation and distribution system, and a centralized machinery control system administered over a fiber optic network. The LHD-8 contract is a fixed-price incentive contract, and a substantial portion of the performance margin on the contract was previously consumed by the impact from Hurricane Katrina in 2005 and a charge of $55 million in the second quarter of 2007.

Lack of progress in LHD-8 on-board testing preparatory to sea trials prompted the company to undertake a comprehensive review of the program, including a detailed physical audit of the ship. From this review, management became aware in March 2008 of the need for substantial rework on the ship, primarily in electrical cable installations. As a result, during the first quarter of 2008, management recorded a pre-tax charge of $272 million for cost growth on the LHD-8 contract and an additional $54 million, primarily for schedule impacts on other ships and impairment of purchased intangibles at the Gulf Coast shipyard.

Unallocated Expenses – Unallocated expenses include the portion of corporate expenses not considered allowable or allocable under applicable U.S. Government Cost Accounting Standards (CAS) regulations and the Federal Acquisition Regulation, and therefore not allocated to the segments, for costs related to management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses.

Net Pension Adjustment – The net pension adjustment reflects the difference between pension expense determined in accordance with accounting principles generally accepted in the United States of America and pension expense allocated to the operating segments determined in accordance with CAS.

Royalty Income Adjustment – Royalty income is included in segment operating income and reclassified to other income for financial reporting purposes.

7. EARNINGS PER SHARE

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

Diluted Earnings Per Share – Diluted earnings per share include the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans, and the company's mandatorily redeemable convertible preferred stock (see Note 4). The dilutive effect of these securities totaled 5.1 million shares and 8.0 million shares (including 41,000 shares and 2.2 million shares for the preferred stock, respectively) for the three and six months ended June 30, 2008, respectively. The dilutive effect of these securities totaled 12.0 million shares and 12.5 million shares (including 6.4 million shares and 6.4 million shares for the preferred stock, respectively) for the three and six months ended June 30, 2007, respectively.

The weighted-average diluted shares outstanding for the three and six months ended June 30, 2008, exclude stock options to purchase approximately 1.4 million and 1.3 million shares, respectively, because such options are anti-dilutive (their exercise price exceeds the average market price of the company's common stock during the periods). The weighted-average diluted shares outstanding for the three and six months ended June 30, 2007, excludes the anti-dilutive effects of stock options to purchase approximately 5,000 and 19,000 shares, respectively.

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

	Three Months Ended June 30		Six Months Ended June 30	
in millions, except per share	**2008**	2007	**2008**	2007
Diluted Earnings per Share				
Earnings from continuing operations	**$ 483**	$ 472	**$ 746**	$ 866
Add dividends on mandatorily redeemable convertible preferred stock		6	**1**	12
Earnings available to common shareholders from continuing operations	**$ 483**	$ 478	**$ 747**	$ 878
Weighted-average common shares outstanding	**339.0**	343.3	**338.7**	344.3
Dilutive effect of stock options, awards and mandatorily redeemable convertible preferred stock	**5.1**	12.0	**8.0**	12.5
Weighted-average diluted shares outstanding	**344.1**	355.3	**346.7**	356.8
Diluted earnings per share from continuing operations	**$ 1.40**	$ 1.35	**$ 2.15**	$ 2.46

Share Repurchases – The table below summarizes the company's share repurchases beginning January 1, 2007:

Authorization Date	Amount Authorized (in millions)	Average Price Per Share	Total Shares Retired (in millions)	Date Completed	Shares Repurchased (in millions) Six Months Ended June 30	
					2008	2007
October 24, 2005	$1,500	$65.08	23.0	February 2007		2.3
December 14, 2006	1,000	75.96	13.1	November 2007		5.7
December 19, 2007	2,500	77.93	10.3		**10.3**	
					10.3	8.0

Under the share repurchase authorizations, the company has previously entered into accelerated share repurchase agreements with banks to repurchase shares of common stock. Under these agreements, shares were immediately borrowed by the bank and then sold to and canceled by the company. Subsequently, shares were purchased in the open market by the bank to settle its share borrowings. The ultimate cost of the company's share repurchases under these agreements was subject to adjustment based on the actual cost of the shares subsequently purchased by the bank. If an additional amount was owed by the company upon settlement, the price adjustment could have been settled, at the company's option, in cash or in shares of common stock. The final price adjustments under these agreements have been immaterial. An accelerated share repurchase agreement was utilized in connection with the 2007 repurchases shown above.

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

As of June 30, 2008, the company has $1.7 billion authorized for share repurchases.

8. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

The changes in the carrying amounts of goodwill for the six months ended June 30, 2008, were as follows:

$ in millions	Balance as of December 31, 2007	Goodwill Transferred in Segment Realignments	Goodwill Adjustment Related to Business Sold	Fair Value Adjustments	**Balance as of June 30, 2008**
Mission Systems	$ 4,677	$(458)		$(17)	**$ 4,202**
Information Technology	2,184			(6)	**2,178**
Technical Services	810			(3)	**807**
Integrated Systems	1,021			(5)	**1,016**
Space Technology	2,852	505		(14)	**3,343**
Electronics	2,514	(47)	$(47)	1	**2,421**
Shipbuilding	3,614			5	**3,619**
Total	$17,672	$ –	$(47)	$(39)	**$17,586**

Segment Realignments – During the first quarter of 2008, the company transferred certain businesses from the Electronics segment to the Mission Systems segment. As a result of this realignment, goodwill of approximately $47 million was reallocated between these segments. During the second quarter of 2008, the company transferred certain programs and assets from the missiles business in the Mission Systems segment to the Space Technology segment. As a result of this realignment, goodwill of approximately $505 million was reallocated between these segments.

In April 2008, the company sold its Electro-Optical Systems business, formerly a part of the Electronics segment, to L-3 Communications Corporation and recognized a gain of $19 million, net of taxes of $39 million. Operating results of this business are reported as discontinued operations in the condensed consolidated statements of operations for all periods presented.

Fair Value Adjustments – The fair value adjustments to goodwill were primarily due to the realization of additional capital loss carryforward tax assets.

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

	June 30, 2008			December 31, 2007		
$ in millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	**$2,631**	**$(1,666)**	**$965**	$2,661	$(1,616)	$1,045
Other purchased intangibles	**100**	**(73)**	**27**	100	(71)	29
Total	**$2,731**	**$(1,739)**	**$992**	$2,761	$(1,687)	$1,074

The company's purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an aggregate weighted-average period of 21 years. Aggregate amortization expense for the three and six months ended June 30, 2008, was $28 million and $81 million, respectively, including $19 million of additional amortization recorded in the first quarter of 2008 associated with the LHD-8 and other programs (see Note 6).

The table below shows expected amortization for purchased intangibles for the remainder of 2008 and for the next five years:

$ in millions	
Year Ending December 31	
2008 (July 1 – December 31)	$ 55
2009	100
2010	91
2011	54
2012	52
2013	42

9. LITIGATION

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

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

As previously disclosed, on May 17, 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Program for eight converted 123-foot patrol boats (the vessels) based on alleged “hull buckling and shaft alignment problems.” By letter dated June 5, 2007, the Coast Guard stated that the revocation of acceptance also was based on alleged “nonconforming topside equipment” on the vessels. On August 13, 2007, the company submitted a response to the Coast Guard, maintaining that the revocation of acceptance was improper. In late December 2007, the Coast Guard responded to the company’s August submittal and advised Integrated Coast Guard Systems (the contractors’ joint venture for performing the Deepwater Program) that the Coast Guard is seeking $96.1 million from the Joint Venture as a result of the revocation of acceptance of the eight vessels delivered under the 123-foot conversion program. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with the company and a subcontractor to the company. The letter is not a contracting officer’s final decision. On May 14, 2008, the Coast Guard advised the Joint Venture that the Coast Guard had decided to suspend its pursuit of the $96.1 million claim and to support instead an investigation by the U.S. Department of Justice of the Joint Venture and its subcontractors. The Department of Justice had previously issued subpoenas related to the Deepwater Program, pursuant to which the company has provided and continues to provide responsive documents. Based upon the information available to the company to date, the company believes that it has substantive defenses to any potential claims but can give no assurance that its views will prevail.

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

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

As previously disclosed, the U.S. District Court for the Central District of California consolidated two separately filed Employee Retirement Income Security Act (ERISA) lawsuits, which the plaintiffs seek to have certified as class actions, into the In Re Northrop Grumman Corporation ERISA Litigation. On August 7, 2007, the Court denied plaintiffs' motion for class certification, and the plaintiffs appealed the Court's decision on class certification to the U.S. Court of Appeals for the Ninth Circuit. On October 11, 2007, the Ninth Circuit granted appellate review, which delayed the commencement of trial previously scheduled to begin January 22, 2008. The company believes, but can give no assurance, that the outcome of these matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Insurance Recovery – As previously disclosed, the company is pursuing legal action against an insurance provider arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see Note 10). The company commenced the action against Factory Mutual Insurance Company (FM Global) on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the district court issued an order finding that the excess insurance policy provided coverage for the company's Katrina-related loss. In November 2007, FM Global filed a notice of appeal of the district court's order. Based on the current status of the assessment and claim process, no assurances can be made as to the ultimate outcome of this matter.

10. COMMITMENTS AND CONTINGENCIES

Contract Performance Contingencies – Contract profit margins may include estimates of revenues not contractually agreed to between the customer and the company for matters such as incentives, contract changes, negotiated settlements, claims and requests for equitable adjustment for previously unanticipated contract costs. These estimates are based upon management's best assessment of the underlying causal events and circumstances, and are included in determining contract profit margins to the extent of expected recovery based on contractual entitlements and the probability of successful negotiation with the customer. As of June 30, 2008, the amounts related to the aforementioned items are not material individually or in the aggregate.

Environmental Matters – In accordance with company policy on environmental remediation, the estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency, or similarly designated by other environmental agencies. To assess the potential impact on the company's consolidated financial statements, management estimates the total reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that as of June 30, 2008, the range of reasonably possible future costs for environmental remediation sites was $191 million to $276 million, of which $232 million is accrued in other current liabilities. Factors that could result in changes to the company's estimates include: modification of planned remedial actions, increases or decreases in the estimated time required to remediate, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the company may have to incur costs in addition to those already estimated and accrued. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's consolidated financial position, results of operations, or cash flows.

Hurricane Katrina – In August 2005, the company's operations in the Gulf Coast area of the U.S. were significantly impacted by Hurricane Katrina and the company's shipyards in Louisiana and Mississippi sustained significant windstorm damage from the hurricane. As a result of the storm, the company has incurred costs to replace or repair destroyed or damaged assets, suffered losses under its contracts, and incurred substantial costs to clean up and recover its operations. As of the date of the storm, the company had a comprehensive insurance program that provided coverage for, among other things, property damage, business interruption impact on net profitability (referred to in this discussion generally as “lost profits”), and costs associated with clean-up and recovery.

The company’s Hurricane Katrina insurance claim is continually being evaluated based on actions to date and an assessment of remaining recovery scope. Certain amounts within the overall claim are still in the process of being finalized and the overall value of the claim may change from the amounts disclosed in the Notes to the Consolidated Financial Statements contained in the company’s 2007 Annual Report on Form 10-K, updated by the Form 8-K filed on July 29, 2008. The company has recovered a certain portion of its claim and expects that its residual claim will be resolved separately with the two remaining insurers, including FM Global, and the company has pursued the resolution of its claim with that understanding (see Note 9).

The company has full entitlement to insurance recoveries related to lost profits; however, because of uncertainties concerning the ultimate determination of recoveries related to lost profits, in accordance with company policy no such amounts are recognized by the company until they are settled with the insurers. Furthermore, due to the uncertainties with respect to the company’s disagreement with FM Global, no receivables have been recognized by the company in the accompanying condensed consolidated financial statements for insurance recoveries from FM Global.

Co-Operative Agreements – In 2003, Shipbuilding executed agreements with the states of Mississippi and Louisiana whereby Shipbuilding leases facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Shipbuilding to these states. As of June 30, 2008, Shipbuilding has fully met its obligations under the Mississippi agreement and has met all but one requirement under the Louisiana agreement related to minimum employment levels. Failure by Shipbuilding to meet the remaining Louisiana commitment would result in reimbursement by Shipbuilding to Louisiana in accordance with the agreement. As of June 30, 2008, Shipbuilding expects that the remaining commitment under the Louisiana agreement will be met based on its most recent business plan.

Financial Arrangements – In the ordinary course of business, the company utilizes standby letters of credit and guarantees issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company’s self-insured workers’ compensation plans. At June 30, 2008, there were $513 million of unused standby letters of credit, $140 million of bank guarantees, and $529 million of surety bonds outstanding.

The company has also guaranteed a $200 million loan made to the Shipbuilding segment in connection with the Gulf Opportunity Zone Industrial Revenue Bonds issued in December 2006. Under the loan agreement the company guaranteed Shipbuilding’s repayment of the principal and interest to the Trustee and also guaranteed payment of the principal and interest by the Trustee to the underlying bondholders.

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

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

Operating Leases – Rental expense for operating leases, excluding discontinued operations, for the three and six months ended June 30, 2008, was $163 million and $301 million, respectively, net of immaterial amounts of sublease rental income, and $143 million and $273 million, respectively, for the three and six months ended June 30, 2007.

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

11. RETIREMENT BENEFITS

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

	Three Months Ended June 30				Six Months Ended June 30			
	Pension Benefits		Medical and Life Benefits		Pension Benefits		Medical and Life Benefits	
$ in millions	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Components of Net Periodic Benefit Cost								
Service cost	**$ 180**	$ 197	**$ 13**	$ 13	**$ 361**	$ 393	**$ 27**	$ 26
Interest cost	**334**	312	**42**	41	**668**	624	**83**	82
Expected return on plan assets	**(474)**	(444)	**(16)**	(14)	**(949)**	(887)	**(32)**	(29)
Amortization of:								
Prior service costs	**10**	9	**(16)**	(16)	**20**	19	**(32)**	(32)
Net loss from previous years	**7**	13	**6**	6	**13**	25	**11**	12
Net periodic benefit cost	**$ 57**	$ 87	**$ 29**	$ 30	**$ 113**	$ 174	**$ 57**	$ 59
Defined contribution plans cost	**$ 75**	$ 63			**$ 150**	$ 145		

Employer Contributions – To meet minimum ERISA funding levels, the company is required to contribute approximately $120 million to its pension plans and approximately $200 million to its medical and life benefit plans in 2008. As of June 30, 2008, contributions of $50 million and $70 million have been made to the company's pension plans and its medical and life benefit plans, respectively.

12. STOCK COMPENSATION PLANS

At June 30, 2008, Northrop Grumman had stock-based compensation awards outstanding under the following plans: the 2001 Long-Term Incentive Stock Plan, the 1993 Long-Term Incentive Stock Plan, both applicable to employees, and the 1993 Stock Plan for Non-Employee Directors and 1995 Stock Plan for Non-Employee Directors as amended. All of these plans were approved by the company's shareholders. Share-based awards under the employee plans consist of stock option awards (Stock Options) and restricted stock awards (Stock Awards).

Compensation Expense – Total pre-tax stock-based compensation for the six months ended June 30, 2008 and 2007, were $83 million and $78 million, respectively, of which $9 million and $7 million related to Stock Options and $74 million and $71 million related to Stock Awards, respectively. Tax benefits recognized in the condensed consolidated statements of income for stock-based compensation during the six months ended June 30, 2008 and 2007, were $32 million and $30 million, respectively. In addition, the company realized tax benefits of $22 million and $39 million from the exercise of Stock Options and $94 million and $77 million from the issuance of Stock Awards in the six months ended June 30, 2008 and 2007, respectively.

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

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The significant weighted-average assumptions relating to the valuation of the company's Stock Options for the six months ended June 30, 2008, and 2007, were as follows:

	2008	2007
Dividend yield	**1.8%**	2.1%
Volatility rate	**20%**	20%
Risk-free interest rate	**2.8%**	4.6%
Expected option life (years)	**6.0**	6.0

The weighted-average grant date fair value of Stock Options granted during each of the six months ended June 30, 2008, and 2007, was $15 per share.

Stock Option activity for the six months ended June 30, 2008, was as follows:

	Shares Under Option (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($ in millions)
Outstanding at January 1, 2008	14,883	$51	4.6 years	$416
Granted	1,308	81		
Exercised	(1,859)	48		
Cancelled and forfeited	(94)	65		
Outstanding at June 30, 2008	**14,238**	**$54**	**4.9 years**	**$211**
Vested and expected to vest in the future at June 30, 2008	14,111	$54	4.8 years	$210
Exercisable at June 30, 2008	12,099	$50	4.1 years	$208
Available for grant at June 30, 2008	10,863			

Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at June 30, 2008 (for outstanding options), less the applicable exercise price. The total intrinsic value of options exercised during the six months ended June 30, 2008 and 2007, was $57 million and $100 million, respectively.

Stock Awards – Compensation expense for Stock Awards is measured at the grant date based on fair value and recognized over the vesting period. The fair value of Stock Awards is determined based on the closing market price of the company's common stock on the grant date. For purposes of measuring compensation expense, the amount of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. In the table below, the share adjustment resulting from the final performance measure is considered granted in the period that the related grant is vested. During the six months ended June 30, 2008, 2.9 million shares of common stock were issued to employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $233 million and a grant date fair value of $155 million. During the six months ended June 30, 2007, 2.6 million shares of common stock were issued to employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $198 million and a grant date fair value of $124 million. There were 2.6 million Stock Awards granted in the six months ended June 30, 2007, with a weighted-average grant date fair value of $64 per share.

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Stock Award activity for the six months ended June 30, 2008, was as follows:

	Stock Awards (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2008	5,144	$67	1.3 years
Granted (including performance adjustment on shares vested)	1,599	74	
Vested	(91)	38	
Forfeited	(300)	62	
Outstanding at June 30, 2008	**6,352**	**$70**	**1.2 years**
Available for grant at June 30, 2008	3,660		

Unrecognized Compensation Expense – At June 30, 2008, there was $218 million of unrecognized compensation expense related to unvested awards granted under the company's stock-based compensation plans, of which $26 million relates to Stock Options and $192 million relates to Stock Awards. These amounts are expected to be charged to expense over a weighted-average period of 1.9 years.

13. INCOME TAXES

The company's effective tax rates on earnings from continuing operations were 34.6 percent and 35.0 percent for the three and six months ended June 30, 2008, respectively, and 29.7 percent and 31.9 percent for the three and six months ended June 30, 2007, respectively. During the second quarter of 2007, the company entered into a partial settlement agreement with the Internal Revenue Service (IRS) regarding its audits for the year ended December 31, 2001 through the year ended December 31, 2003. As a result of the settlement, the company recognized tax benefits of $16 million.

As a result of the implementation of FIN 48, the company made a comprehensive review of its portfolio of uncertain tax positions in accordance with the recognition standards established by FIN 48. In this regard, an uncertain tax position represents the company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes.

The company recognizes accrued interest and penalties related to uncertain tax positions in federal and foreign income tax expense. The company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The IRS is currently examining the company's U.S. income tax returns for 1999-2006, including pre-acquisition activities of acquired companies. In addition, open tax years related to state and foreign jurisdictions remain subject to examination, but are not material.

Pursuant to the company's merger with TRW in December 2002, the company is liable for tax deficiencies of TRW and its subsidiaries prior to the merger. The IRS examined the TRW income tax returns for the years ended 1999 through the date of the merger and asserted tax deficiencies for those years to which the company has taken exception. The 1999 through 2002 TRW audit deficiencies are currently under consideration at IRS Appeals. In January 2008, the company and the IRS reached a tentative agreement with respect to the proposed tax deficiencies. Although the final outcome is not determinable until the IRS' Joint Committee on Taxation completes its review of the settlement agreement in 2008, it is reasonably possible that unrecognized tax benefits of up to $106 million may be eliminated, all of which would result in an offsetting reduction to goodwill.

NORTHROP GRUMMAN CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries (the Corporation) as of June 30, 2008, and the related condensed consolidated statements of operations and of comprehensive income for the three-month and six-month periods ended June 30, 2008 and 2007, and of changes in cash flows and of changes in shareholders' equity for the six-month periods ended June 30, 2008 and 2007. These interim financial statements are the responsibility of the Corporation's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2007, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated February 20, 2008 (July 29, 2008 as to the reclassification of Electro-Optical Systems as a discontinued operation and the reclassification of segment information as described in Notes 5 and 6), we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the adoption of a new accounting standard for income taxes. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2007 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 29, 2008

NORTHROP GRUMMAN CORPORATION

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

OVERVIEW

The following discussion should be read along with the unaudited Condensed Consolidated Financial Statements included in this Form 10-Q, as well as the company's 2007 Annual Report on Form 10-K, updated by the Form 8-K dated July 29, 2008, filed with the Securities and Exchange Commission, which provides a more thorough discussion of the company's products and services, industry outlook, and business trends. See discussion of consolidated results starting on page I-23 and discussion of results by segment starting on page I-26.

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

Business Outlook and Operational Trends – There have been no material changes to the company's products and services, industry outlook, or business trends from those disclosed in the company's 2007 Annual Report on Form 10-K, updated by the Form 8-K filed on July 29, 2008. The company's shipyard operations in the Gulf Coast continue to be impacted from workforce shortages resulting from hurricanes in 2005.

Notable Events – Notable events or activity during the three months ended June 30, 2008, affecting the company's consolidated financial results included the following:

- Contract award of $1.16 billion by U.S. Navy for a Broad Area Maritime Surveillance Unmanned Aircraft System currently under protest – see page I-35.

Other notable events or activity during the six months ended June 30, 2008, included the following:

- Contract award of $1.5 billion by U.S. Air Force to replace its aerial refueling tanker fleet. Decision by Government Accountability Office to uphold protest of aerial refueling tanker award – see page I-35.
- Pre-tax charge of $326 million associated with the LHD-8 and other ships – see page I-33 and Note 6 to the Condensed Consolidated Financial Statements in Part I, Item 1.
- Conversion and redemption of 3.5 million shares of mandatorily redeemable convertible preferred stock to 6.4 million shares of common stock – see Note 4 to the Condensed Consolidated Financial Statements in Part I, Item 1.
- Sale of Electro-Optical Systems – see Note 5 to the Condensed Consolidated Financial Statements in Part I, Item 1.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

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

CONSOLIDATED OPERATING RESULTS

Selected financial highlights are presented in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
$ in millions, except per share	**2008**	2007	**2008**	2007
Sales and service revenues	**$8,628**	$7,878	**$16,352**	$15,192
Cost of sales and service revenues	**7,822**	7,115	**15,082**	13,739
Operating income	**806**	763	**1,270**	1,453
Interest expense	**(72)**	(83)	**(149)**	(172)
Federal and foreign income taxes	**256**	199	**402**	405
Diluted earnings per share from continuing operations	**1.40**	1.35	**2.15**	2.46
Net cash provided by operating activities	**607**	741	**801**	1,141

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

	Three Months Ended June 30,		Six Months Ended June 30,	
$ in millions	**2008**	2007	**2008**	2007
Product sales	**$4,849**	$4,460	**$ 9,243**	$ 8,646
Service revenues	**3,779**	3,418	**7,109**	6,546
Sales and service revenues	**$8,628**	$7,878	**$16,352**	$15,192

Sales and service revenues for the three and six months ended June 30, 2008, increased $750 million and $1.2 billion, respectively, as compared with the same periods in 2007, reflecting higher sales in all operating segments. Sales and service revenues were impacted by a sales step back of $134 million on the LHD-8 program recorded in the first quarter of 2008. See the Segment Operating Results section below for further information.

Cost of Sales and Service Revenues

Cost of sales and service revenues is comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
$ in millions	**2008**	2007	**2008**	2007
Cost of product sales	**$3,793**	$3,486	**$ 7,522**	$ 6,696
% of product sales	***78.2%***	*78.2%*	***81.4%***	*77.4%*
Cost of service revenues	**3,232**	2,821	**6,025**	5,528
% of service revenues	***85.5%***	*82.5%*	***84.8%***	*84.4%*
General and administrative expenses	**797**	808	**1,535**	1,515
% of total sales and service revenues	***9.2%***	*10.3%*	***9.4%***	*10.0%*
Cost of sales and service revenues	**$7,822**	$7,115	**$15,082**	$13,739

Cost of Product Sales and Service Revenues – Cost of product sales as a percentage of product sales for the three months ended June 30, 2008, as compared to the same period in 2007, remained essentially unchanged. The increase in cost of product sales as a percentage of product sales for the six months ended June 30, 2008, as compared to the same period in 2007, is primarily due to a $272 million pre-tax charge at Shipbuilding in the first quarter of 2008 for cost growth on the LHD-8 contract and an additional $54 million, primarily for schedule impacts on other ships and impairment of purchased intangibles at the Gulf Coast shipyard.

Cost of service revenues as a percentage of service revenues for the three and six months ended June 30, 2008, as compared to the same periods in 2007, increased primarily at Mission Systems, Information Technology and Shipbuilding due to contract mix.

General and Administrative Expenses – In accordance with industry practice and the regulations that govern the cost accounting requirements for government contracts, most general corporate expenses incurred at both the segment and corporate locations are considered allowable and allocable costs on government contracts and such costs, for most components of the company, are allocated to contracts in progress on a systematic basis, and contract performance factors include this cost component as an element of cost. General and administrative expenses primarily relate to segment operations. The decrease in general and administrative expenses as a percentage of total sales and service revenues for the three and six months ended June 30, 2008, is primarily due to the higher sales volume as compared with the same periods in 2007.

Operating Income

The company considers operating income to be an important measure for evaluating its operating performance and defines “operating income” as revenues less the related cost of producing the revenues and general and administrative expenses. Operating income for the company is further evaluated for each of the business segments in which the company operates, and “segment operating income” is one of the key metrics used by management of the company to internally manage its operations.

The table below reconciles segment operating income to total operating income:

	Three Months Ended June 30		Six Months Ended June 30	
$ in millions	**2008**	2007	**2008**	2007
Segment operating income	**$784**	$798	**$1,242**	$1,490
Unallocated expenses	**(43)**	(64)	**(75)**	(96)
Net pension adjustment	**69**	28	**128**	61
Royalty income adjustment	**(4)**	1	**(25)**	(2)
Total operating income	**$806**	$763	**$1,270**	$1,453

Segment Operating Income – Segment operating income for the three months ended June 30, 2008, decreased $14 million, or 2 percent, as compared to the same period in 2007. Total segment operating income was 9.1 percent and 10.1 percent of total sales and service revenues for the three months ended June 30, 2008, and 2007, respectively. Segment operating income for the six months ended June 30, 2008, decreased $248 million, or 17 percent, as compared to the same period in 2007. Total segment operating income was 7.6 percent and 9.8 percent of total sales and service revenues for the six months ended June 30, 2008, and 2007, respectively. The decrease in operating income in 2008 includes pre-tax charges totaling $326 million at Shipbuilding in the first quarter of 2008 stemming from cost growth, schedule delays and impairment of purchased intangibles at the Gulf Coast shipyards. See the Segment Operating Results section below and Note 6 to the Condensed Consolidated Financial Statements in Part I, Item 1 for further information.

Unallocated Expenses – Unallocated expenses include the portion of corporate expenses not considered allowable or allocable under applicable U.S. Government Cost Accounting Standards (CAS) regulations and the Federal Acquisition Regulation, and therefore not allocated to the segments, such as management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses. Unallocated expenses for the three and six months ended June 30, 2008, decreased $21 million in each period, or 33 percent and 22 percent, respectively, as compared to the same periods in 2007, primarily due to $50 million in legal and investigative provisions recorded in the second quarter of 2007, partially offset by increased other corporate unallocated costs.

Net Pension Adjustment – Net pension adjustment reflects the difference between pension expense determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with

CAS. For the three months ended June 30, 2008, and 2007, pension expense determined in accordance with GAAP was $57 million and $87 million, respectively, and pension expense determined in accordance with CAS amounted to $126 million and $115 million, respectively. For the six months ended June 30, 2008, and 2007, pension expense determined in accordance with GAAP was $113 million and $174 million, respectively, and pension expense determined in accordance with CAS amounted to $241 million and $235 million, respectively. The reduction in GAAP pension expense in 2008 is primarily the result of better than estimated investment returns in 2007, a higher discount rate assumption and pension plan design changes that took effect in 2008.

Royalty Income Adjustment – Royalty income is included in segment operating income and reclassified to other income for financial reporting purposes.

Interest Expense
Interest expense for the three and six months ended June 30, 2008, decreased $11 million and $23 million, respectively, as compared with the same periods in 2007, primarily due to the conversion and redemption of the mandatorily redeemable convertible preferred stock, which reduced the dividends paid during the 2008 periods.

Other, Net
Other, net for the three and six months ended June 30, 2008, increased $14 million and $37 million, respectively, as compared with the same periods in 2007, primarily due to gains recorded on the sale of assets in 2008 as compared with losses recorded on the sale of assets in 2007. Other, net for the six months ended June 30, 2008, also includes higher royalty income than in the prior year period. Other, net includes interest income for all periods presented.

Federal and Foreign Income Taxes
The company's effective tax rate on earnings from continuing operations for the three months ended June 30, 2008, was 34.6 percent compared with 29.7 percent for the same period in 2007. For the six months ended June 30, 2008, the company's effective tax rate on earnings from continuing operations was 35.0 percent compared with 31.9 percent for the same period in 2007. During the second quarter of 2007, the company entered into a partial settlement agreement with the Internal Revenue Service regarding its audits for the year ended December 31, 2001 through the year ended December 31, 2003. As a result of the settlement, the company recognized tax benefits of $16 million.

Discontinued Operations
Discontinued operations for the three and six months ended June 30, 2008, and 2007, primarily represents the net operating results and after-tax gain on sale of the Electro-Optical Systems business formerly reported in the Electronics segment. The 2007 periods also include the net operating results of Interconnect Technologies. See Note 5 to the Condensed Consolidated Financial Statements in Part I, Item I.

Diluted Earnings Per Share
Diluted earnings per share from continuing operations for the three months ended June 30, 2008, were $1.40 per share, as compared with $1.35 per share in the same period in 2007. Earnings per share are based on weighted-average diluted shares outstanding of 344.1 million for the three months ended June 30, 2008, and 355.3 million for the same period in 2007.

Diluted earnings per share from continuing operations for the six months ended June 30, 2008, were $2.15 per share, as compared with $2.46 per share in the same period in 2007. Earnings per share are based on weighted-average diluted shares outstanding of 346.7 million for the six months ended June 30, 2008, and 356.8 million for the same period in 2007.

Diluted earnings per share from continuing operations and the weighted-average diluted shares outstanding include the dilutive effects of the mandatorily redeemable convertible preferred stock. A substantial portion of the mandatorily redeemable convertible preferred stock was converted to common stock in the first quarter of 2008, with the remainder converted or redeemed in April 2008.

See Notes 4 and 7 to the Condensed Consolidated Financial Statements in Part I, Item 1.

Net Cash Provided by Operating Activities
For the three months ended June 30, 2008, net cash provided by operating activities was $607 million compared to $741 million for the same period in 2007. The decrease of $134 million, or 18 percent, was primarily due to the receipt of $125 million of insurance proceeds related to Katrina in 2007.

For the six months ended June 30, 2008, net cash provided by operating activities was $801 million compared to $1.1 billion for the same period in 2007. The decrease of $340 million, or 30 percent, was primarily due to higher cash paid to suppliers as compared to cash received from customers in the 2008 period of $284 million, and lower cash insurance proceeds of $120 million, partially offset by a slight improvement in other cash receipts.

SEGMENT OPERATING RESULTS

Basis of Presentation
During the second quarter of 2008, the company transferred certain programs and assets from the missiles business in the Mission Systems segment to the Space Technology segment. This transfer allows Mission Systems to focus on the rapidly growing command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) business, and the missiles business will be an integrated element of the company's Aerospace business growth strategy.

In January 2008, the Newport News and Ship Systems businesses were realigned into a single segment called Northrop Grumman Shipbuilding. Previously, these businesses were separate operating segments which were aggregated into a single segment for financial reporting purposes. In addition, certain Electronics businesses were transferred to Mission Systems during the first quarter of 2008.

In January 2007, certain programs and business areas were transferred between Information Technology, Mission Systems, Space Technology, and Technical Services.

Sales and segment operating income information in the following tables have been revised, where applicable, to reflect the above realignments for all periods presented.

For presentation purposes, the company's seven segments are categorized into four primary businesses. The Mission Systems, Information Technology and Technical Services segments are presented as Information & Services. The Integrated Systems and Space Technology segments are presented as Aerospace. The Electronics and Shipbuilding segments are presented as separate businesses.

NORTHROP GRUMMAN CORPORATION

$ in millions	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Sales and Service Revenues				
Information & Services				
Mission Systems	**$1,388**	$1,288	**$ 2,686**	$ 2,447
Information Technology	**1,215**	1,143	**2,300**	2,181
Technical Services	**572**	551	**1,077**	1,071
Total Information & Services	**3,175**	2,982	**6,063**	5,699
Aerospace				
Integrated Systems	**1,358**	1,225	**2,698**	2,506
Space Technology	**1,118**	1,067	**2,140**	2,057
Total Aerospace	**2,476**	2,292	**4,838**	4,563
Electronics	**1,675**	1,628	**3,230**	3,156
Shipbuilding	**1,688**	1,359	**2,952**	2,515
Intersegment eliminations	**(386)**	(383)	**(731)**	(741)
Sales and service revenues	**$8,628**	$7,878	**$16,352**	$15,192
Segment Operating Income				
Information & Services				
Mission Systems	**$ 133**	$ 142	**$ 261**	$ 245
Information Technology	**82**	90	**171**	176
Technical Services	**36**	32	**62**	60
Total Information & Services	**251**	264	**494**	481
Aerospace				
Integrated Systems	**143**	149	**313**	309
Space Technology	**93**	90	**175**	163
Total Aerospace	**236**	239	**488**	472
Electronics	**202**	189	**411**	381
Shipbuilding	**126**	134	**(92)**	213
Intersegment eliminations	**(31)**	(28)	**(59)**	(57)
Segment operating income	**$ 784**	$ 798	**$ 1,242**	$ 1,490

Operating Performance Assessment and Reporting – The company manages and assesses the performance of its businesses based on its performance on individual contracts and programs obtained generally from government organizations using the financial measures referred to below, with consideration given to the company’s critical accounting policies and estimation processes. Based on this approach and the nature of the company’s operations, the discussion of results of operations generally focuses around the company’s seven segments versus distinguishing between products and services. Product sales are predominantly generated in the Electronics, Integrated Systems, Space Technology and Shipbuilding segments, while the majority of the company’s service revenues are generated by the Information Technology, Mission Systems and Technical Services segments.

Sales and Service Revenues – Period-to-period sales reflect performance under new and ongoing contracts. Changes in sales and service revenues are typically expressed in terms of volume. Unless otherwise described, volume generally refers to increases (or decreases) in revenues incurred due to varying production activity levels, delivery rates, or service levels on individual contracts. Volume changes will typically carry a corresponding income change based on the margin rate for a particular contract.

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

Operating income may also be affected by, among other things, the effects of workforce stoppages, the effects of natural disasters (such as hurricanes and earthquakes), resolution of disputed items with the customer, recovery of insurance proceeds, and other discrete events. At the completion of a long-term contract, any originally estimated costs not incurred or reserves not fully utilized (such as warranty reserves) could also impact contract earnings. Where such items have occurred, and the effects are material, a separate description is provided.

Contract Descriptions
For convenience, a brief description of certain programs discussed in this Form 10-Q is included in the "Glossary of Programs" beginning on page I-38.

INFORMATION & SERVICES

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

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

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

	Three Months Ended June 30						Six Months Ended June 30					
	2008			2007			**2008**			2007		
$ in millions	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales
Mission Systems	**$1,388**	**$133**	**9.6%**	$1,288	$142	11.0%	**$2,686**	**$261**	**9.7%**	$2,447	$245	10.0%
Information Technology	**1,215**	**82**	**6.7%**	1,143	90	7.9%	**2,300**	**171**	**7.4%**	2,181	176	8.1%
Technical Services	**572**	**36**	**6.3%**	551	32	5.8%	**1,077**	**62**	**5.8%**	1,071	60	5.6%
Information & Services	**$3,175**	**$251**	**7.9%**	$2,982	$264	8.9%	**$6,063**	**$494**	**8.1%**	$5,699	$481	8.4%

Sales and Service Revenues
Mission Systems
Revenue for the three months ended June 30, 2008, increased $100 million, or 8 percent, as compared with the same period in 2007. The increase was primarily due to $77 million higher sales in ISR, and $11 million higher

sales in C3. The increase in ISR is due to ramp-up in the Navstar Global Positioning System Operational Control Segment (Navstar GPS OCX), ELINT Modernization Information, Management and Storage Increment 1 (EMOD IM&S), and certain restricted programs. The increase in C3 is primarily due to higher volume in several programs, including Command Post Platform (CPP), Force XXI Battle Brigade and Below Installation Kits (FBCB2 I-Kits), Counter Radio-Controlled Improvised Explosive Device Electronic Warfare (CREW), and Joint Tactical Radio System Airborne and Maritime/Fixed Station, partially offset by lower volume on the F-22 program.

Revenue for the six months ended June 30, 2008, increased $239 million, or 10 percent, as compared with the same period in 2007. The increase was primarily due to $139 million higher sales in ISR and $96 million higher sales in C3. The increase in ISR is due to ramp-up in the Navstar GPS OCX, and EMOD IM&S, as well as certain restricted programs. The increase in C3 is due to higher volume in several programs, including CPP, FBCB2 I-Kits, Counter-Rocket Artillery Mortar, Battlefield Airborne Communication Node, and the Joint National Integrations Center Research & Development (JRDC), partially offset by lower deliveries and development activities in the F-22, F-35, and Ground-Based Midcourse Defense Fire Control and Communications (GFC/C) programs.

Information Technology
Revenue for the three months ended June 30, 2008, increased $72 million, or 6 percent, as compared with the same period in 2007. The increase was primarily due to $34 million higher sales in Intelligence, $30 million higher sales in Defense, and $16 million higher sales in CS&L. The increase in Intelligence primarily reflects new restricted program wins. The increase in Defense is attributable to higher volume associated with the Network Centric Solutions program. The increase in CS&L is due to higher volume associated with the New York City Wireless program.

Revenue for the six months ended June 30, 2008, increased $119 million, or 5 percent, as compared with the same period in 2007. The increase was primarily due to $52 million higher sales in Defense, $50 million higher sales in Intelligence, and $42 million higher sales in CS&L, primarily due to the programs noted above.

Technical Services
Revenue for the three months ended June 30, 2008, increased $21 million, or 4 percent, as compared with the same period in 2007. The increase was primarily due to $29 million higher sales in LCOE, partially offset by $5 million lower sales in SSG. The increase in LCOE is associated with additional sales volume on the Hunter CLS, FSC Oklahoma City, and Global Hawk programs. The decrease in SSG is driven by reduced customer spending on the Nevada Test Site program due to the completion of projects in 2007.

Revenue for the six months ended June 30, 2008, increased $6 million, or 1 percent, as compared with the same period in 2007. The increase was primarily due to $32 million higher sales in LCOE, partially offset by $25 million lower sales in SSG. The increase in LCOE is due to additional sales volume on the Hunter CLS and B-2 programs. The decrease in SSG is due to the completion of the Western Range Operations program in 2007, and decreased customer spending on the Joint Base Operations Support and Nevada Test Site programs.

Segment Operating Income
Mission Systems
Operating income at Mission Systems for the three months ended June 30, 2008, decreased $9 million, or 6 percent, as compared with the same period in 2007. The decrease is primarily due to a favorable rate adjustment recorded in 2007, partially offset by performance adjustments in the second quarter of 2008.

Operating income at Mission Systems for the six months ended June 30, 2008, increased $16 million, or 7 percent, as compared with the same period in 2007. The increase is comprised of $24 million from higher sales volume, partially offset by $8 million in lower performance results, both as described above.

Information Technology
Operating income at Information Technology for the three months ended June 30, 2008, decreased $8 million, or 9 percent, as compared with the same period in 2007. The decrease is primarily due to $14 million in lower performance results, partially offset by $6 million from the higher volume described above. The 2008 period includes a reduction in the value of deferred costs for the County of San Diego IT outsourcing program.

Operating income at Information Technology for the six months ended June 30, 2008, decreased $5 million, or 3 percent, as compared with the same period in 2007. The decrease is primarily due to $15 million in lower performance results, partially offset by $10 million from the higher volume described above.

Technical Services
Operating income at Technical Services for the three months ended June 30, 2008, increased $4 million, or 13 percent, as compared with the same period in 2007, primarily due to the higher sales volume described above and performance improvements in SSG.

Operating income at Technical Services for the six months ended June 30, 2008, increased $2 million, or 3 percent, as compared with the same period in 2007, primarily due to performance improvements in SSG.

AEROSPACE

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

Space Technology – Develops and integrates a broad range of systems at the leading edge of space, defense, and electronics technology. The segment supplies products primarily to the U.S. Government that are critical to maintaining the nation’s security and leadership in science and technology. Space Technology’s business areas focus on the design, development, manufacture, and integration of satellite systems and subsystems, electronic and communications payloads, intercontinental ballistic missile systems, and high energy laser systems and subsystems. Products and services are grouped into the following business areas: Civil Systems; Military Systems; Missile Systems; National Systems; and Technology & Emerging Systems.

	Three Months Ended June 30						Six Months Ended June 30					
	2008			2007			**2008**			2007		
$ in millions	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales
Integrated Systems	**$1,358**	**$143**	**10.5%**	$1,225	$149	12.2%	**$2,698**	**$313**	**11.6%**	$2,506	$309	12.3%
Space Technology	**1,118**	**93**	**8.3%**	1,067	90	8.4%	**2,140**	**175**	**8.2%**	2,057	163	7.9%
Aerospace	**$2,476**	**$236**	**9.5%**	$2,292	$239	10.4%	**$4,838**	**$488**	**10.1%**	$4,563	$472	10.3%

Sales and Service Revenues
Integrated Systems
Revenue for the three months ended June 30, 2008, increased $133 million, or 11 percent, as compared with the same period in 2007. The increase was primarily due to $78 million higher sales in ISWR and $41 million higher sales in ISER. The increase in ISWR is primarily due to higher volume associated with the UCAS-D, B-2, Global Hawk High Altitude Long Endurance (HALE) Systems, and restricted programs, partially offset by lower volume in the F-35 program. The increase in ISER is primarily due to higher volume associated with the EA-6B program.

Revenue for the six months ended June 30, 2008, increased $192 million, or 8 percent, as compared with the same period in 2007. The increase was primarily due to $127 million higher sales in ISWR and $54 million higher sales in ISER. The increase in ISWR is due to higher volume associated with the UCAS-D, B-2, Global

Hawk HALE Systems, and restricted programs, partially offset by lower volume in the F-35 and Multi-Platform Radar Technology Insertion Program programs. The increase in ISER is primarily due to higher volume associated with the Air Mobility Tanker and EA-6B program, partially offset by lower volume in the E-10A program.

Space Technology
Revenue for the three months ended June 30, 2008, increased $51 million, or 5 percent, as compared with the same period in 2007. The increase was primarily due to $40 million higher sales in Civil Systems, and $39 million higher sales in National Systems, partially offset by $52 million lower sales in Military Systems. The increase in Civil Systems is due to higher volume on the James Webb Space Telescope (JWST) and the National Polar-orbiting Operational Environmental Satellite System (NPOESS) programs. The increase in National Systems is due to higher volume associated with restricted programs, partially offset by the termination of Space Radar. The decrease in Military Systems is due to lower sales volume associated with the Advanced Extremely High Frequency (AEHF), Space Tracking and Surveillance System (STSS), and Defense Support (DSP) programs.

Revenue for the six months ended June 30, 2008, increased $83 million, or 4 percent, as compared with the same period in 2007. The increase was primarily due to $93 million higher sales in National Systems, $56 million higher sales in Civil Systems, and $14 million higher sales in Missile Systems, partially offset by $113 million lower sales in Military Systems. The increase in National Systems is due to higher volume associated with restricted programs, partially offset by the termination of Space Radar. The increase in Civil Systems is due to higher volume on the JWST and NPOESS programs. The increase in Missile Systems is due to higher volume on the Kinetic Energy Interceptor (KEI) program. The decrease in Military Systems is due to lower volume associated with the AEHF, STSS, DSP, and Transformational Satellite Communications System (TSAT) programs.

Segment Operating Income
Integrated Systems
Operating income at Integrated Systems for the three months ended June 30, 2008, decreased $6 million, or 4 percent, as compared with the same period in 2007. The change reflects an increase in operating income of $16 million from the higher sales volume described above and $5 million in improved performance results, offset by the impact of a $27 million favorable adjustment related to the settlement of prior years' overhead costs in 2007.

Operating income at Integrated Systems for the six months ended June 30, 2008, increased $4 million, or 1 percent, as compared with the same period in 2007. The change reflects an increase in operating income of $24 million from the higher sales volume described above and $7 million in improved performance results, offset by the impact of a $27 million favorable adjustment related to the settlement of prior years' overhead costs in 2007.

Space Technology
Operating income at Space Technology for the three months ended June 30, 2008, increased $3 million, or 3 percent, as compared with the same period in 2007, primarily due to the higher sales volume described above.

Operating income at Space Technology for the six months ended June 30, 2008, increased $12 million, or 7 percent, as compared with the same period in 2007. The increase comprises $7 million from the higher sales volume described above and $5 million in performance improvements.

ELECTRONICS

Business Description
Electronics is a leading designer, developer, manufacturer and integrator of a variety of advanced electronic and maritime systems for national security and select non-defense applications. Electronics provides systems to U.S. and international customers for such applications as airborne and maritime surveillance, aircraft fire control, precision targeting, electronic warfare, automatic test equipment, inertial navigation, integrated avionics, space

sensing, intelligence processing, air and missile defense, homeland defense, communications, mail processing, biochemical detection, marine propulsion and power generation, machinery control, and combat management systems. Products and services are grouped into the following business areas: Aerospace Systems; Government Systems; Naval & Marine Systems; Defensive Systems; Land Forces; Navigation Systems; Space Sensors & ISR Systems; and Defense Other.

	Three Months Ended June 30						Six Months Ended June 30					
	2008			2007			**2008**			2007		
$ in millions	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales
Electronics	**$1,675**	**$202**	**12.1%**	$1,628	$189	11.6%	**$3,230**	**$411**	**12.7%**	$3,156	$381	12.1%

Sales and Service Revenues

Revenue for the three months ended June 30, 2008, increased $47 million, or 3 percent, as compared with the same period in 2007. The increase was primarily due to $44 million higher sales in Aerospace Systems and $30 million higher sales in Navigation Systems, partially offset by $28 million lower sales in Space Sensors & ISR Systems and $19 million lower sales in Naval & Marine Systems. The increase in Aerospace Systems is due to increased deliveries on V(9) New Fighter Aircraft (NFA) and volume on Cobra Judy. The increase in Navigation Systems is due to higher volume associated with Inertial Navigation programs. The decrease in Space Sensors & ISR Systems is due to lower volume associated with the Space Based Infrared System (SBIRS) program as the program transitions from development to production. The decrease in Naval & Marine Systems is due to lower volume associated with restricted programs.

Revenue for the six months ended June 30, 2008, increased $74 million, or 2 percent, as compared with the same period in 2007. The increase was primarily due to $110 million higher sales in Land Forces and $65 million higher sales in Navigation Systems, partially offset by $67 million lower sales in Naval & Marine Systems and $25 million lower sales in Space Sensors & ISR Systems. The increase in Land Forces is due to higher volume associated with the Vehicular Intercommunications Systems and Ground/Air Task Oriented Radar programs. The increase in Navigation Systems is due to higher volume associated with Inertial Navigation programs. The decrease in Naval & Marine Systems is due to lower volume associated with restricted programs and contract closeouts in 2007. The decrease in Space Sensors & ISR Systems is due to lower volume associated with the SBIRS program.

Segment Operating Income

Operating income at Electronics for the three months ended June 30, 2008, increased $13 million, or 7 percent, as compared with the same period in 2007. The increase comprises $5 million from the higher sales volume described above and $8 million in lower net performance adjustments in 2008 compared to the prior year period. Second quarter 2008 operating income includes a $20 million charge for the company’s Wedgetail MESA radar program associated with the program risks arising from the prime contractor’s recently announced schedule delay in completing the program. Operating income for the second quarter of 2007 included a $27 million charge for the F-16 Block 60 fixed price development program.

Operating income at Electronics for the six months ended June 30, 2008, increased $30 million, or 8 percent, as compared with the same period in 2007. The increase comprises $9 million from the higher sales volume described above and $21 million in performance improvements. The performance improvement is attributable to higher royalty income in Navigation Systems and the lower net performance adjustments as described above.

SHIPBUILDING

Business Description

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

	Three Months Ended June 30						Six Months Ended June 30					
	2008			2007			**2008**			2007		
$ in millions	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales
Shipbuilding	**$1,688**	**$126**	**7.5%**	$1,359	$134	9.9%	**$2,952**	**$(92)**	**(3.1)%**	$2,515	$213	8.5%

Sales and Service Revenues

Revenue for the three months ended June 30, 2008, increased $329 million, or 24 percent, as compared with the same period in 2007. The increase was primarily due to $102 million higher sales in Expeditionary Warfare, $94 million higher sales in Surface Combatants, $74 million higher sales in Aircraft Carriers, and $58 million higher sales in Fleet Support. The increase in Expeditionary Warfare is primarily due to higher sales volume in the LPD and LHD programs, partially offset by lower sales volume in the LHA-6 program. The increase in Surface Combatants is primarily due to higher sales in the DDG 51 program. The increase in Aircraft Carriers is primarily due to higher sales volume in the *Ford*-class and *USS Enterprise* Extended Docking Selected Restricted Availability (EDSRA) programs, partially offset by volume decrease on the *Vinson* program. The increase in Fleet Support is primarily due to the consolidation of AMSEC in the 2008 period. During the three months ended June 30, 2007, all programs at the Pascagoula, Mississippi facility were negatively impacted by a labor strike.

Revenue for the six months ended June 30, 2008, increased $437 million, or 17 percent, as compared with the same period in 2007. The increase was primarily due to $170 million higher sales in Surface Combatants, $108 million higher sales in Fleet Support, $101 million higher sales in Aircraft Carriers, and $51 million higher sales in Services. The increase in Surface Combatants is primarily due to higher sales volume in the DDG 51 program. The increase in Fleet Support is primarily due to the consolidation of AMSEC in the 2008 period. The increase in Aircraft Carriers is primarily due to increase in sales volume in the *Ford*-class and *Enterprise* EDSRA programs, partially offset by volume decrease on the *Vinson* program. The increase in Services is primarily due to higher sales on various programs. Expeditionary Warfare sales for the six months ended June 30, 2008, were negatively impacted by a sales step back of $134 million on the LHD-8 program in the first quarter of 2008, which was offset by higher sales in the LPD program. During the six months ended June 30, 2007, all programs at the Pascagoula, Mississippi facility were negatively impacted by a labor strike.

Segment Operating Income

Operating income at Shipbuilding for the three months ended June 30, 2008, decreased $8 million, or 6 percent, as compared with the same period in 2007. The decrease is comprised of $40 million lower performance results, partially offset by $32 million from the higher sales volume described above. The lower performance results are primarily due to additional costs for schedule impacts to several shipbuilding programs as a result of resource constraints caused by the previously announced delay in construction on the LHD-8 program. Operating income for the comparable 2007 period also included adjustments resulting from $62 million of favorable insurance recoveries relating to lost profits as a result of the impact of Hurricane Katrina, partially offset by $55 million relating to an earlier schedule extension delay on LHD-8, and lower operating performance across several other programs.

Operating income at Shipbuilding for the six months ended June 30, 2008, decreased $305 million, or 143 percent, to a loss of $92 million as compared with income of $213 million for the same period in 2007. The decrease is primarily due to a $326 million pre-tax charge on LHD-8 and other programs recorded in the first quarter of 2008 (see Note 6 to the Condensed Consolidated Financial Statements in Part I, Item I). Absent this charge, operating income for the six months ended June 30, 2008, was $234 million, or 7.6 percent of segment sales adjusted for the LHD-8 sales step back discussed above. Of the total adjusted increase of $21 million for the six months compared with the same period in 2007, $48 million was due to the volume increases described above, partially offset by the cost impact of resource constraints caused by the LHD-8 delay. Operating income for the comparable 2007 quarter also included adjustments resulting from $62 million of favorable insurance recoveries relating to lost profits as a result of the impact of Hurricane Katrina, partially offset by $55 million relating to an earlier schedule extension delay on LHD-8, and lower operating performance across several other programs.

While management believes the charges above are adequate to cover known risks to date and that the steps taken to improve quality assurance will be effective, the LHD-8 program is on-going and the company's efforts and the end results must be satisfactory to the customer. The company believes that its estimate of costs to complete the LHD-8 contract reflects appropriate cost estimates based on known information, but cannot provide absolute assurance that additional costs will not be required.

BACKLOG

Definition
Total backlog at June 30, 2008, was approximately $67 billion. Total backlog includes contractually obligated awards that are funded (firm orders for which funding is obligated by the customer) or unfunded (firm orders for which funding is not currently obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded Indefinite Delivery and Indefinite Quantity (IDIQ) orders. For multi-year services contracts with non-federal government customers having no stated contract values, backlog includes only the amounts committed by the customer. Backlog is converted into sales as work is performed or deliveries are made.

Backlog consisted of the following as of June 30, 2008 and as of December 31, 2007:

	June 30, 2008			December 31, 2007		
$ in millions	**Funded**	**Unfunded**	**Total Backlog**	Funded	Unfunded	Total Backlog
Information & Services						
Mission Systems	**$ 2,526**	**$ 3,325**	**$ 5,851**	$ 2,365	$ 3,288	$ 5,653
Information Technology	**2,409**	**1,971**	**4,380**	2,581	2,268	4,849
Technical Services	**1,571**	**2,730**	**4,301**	1,471	3,193	4,664
Total Information & Services	**6,506**	**8,026**	**14,532**	6,417	8,749	15,166
Aerospace						
Integrated Systems	**5,021**	**7,571**	**12,592**	4,204	4,525	8,729
Space Technology	**2,080**	**13,374**	**15,454**	2,295	13,963	16,258
Total Aerospace	**7,101**	**20,945**	**28,046**	6,499	18,488	24,987
Electronics	**8,655**	**2,311**	**10,966**	7,887	2,047	9,934
Shipbuilding	**11,601**	**1,741**	**13,342**	10,348	3,230	13,578
Total backlog	**$33,863**	**$33,023**	**$66,886**	$31,151	$32,514	$63,665

New Awards
The estimated value of new contract awards during the six months ended June 30, 2008, is approximately $19.6 billion. Significant new awards during this period include $1.5 billion for the aerial refueling tanker replacement program (see below), $1.4 billion for the DDG 1000 *Zumwalt*-class destroyer, $1.2 billion for the Broad Area Maritime Surveillance Unmanned Aircraft System program (see below), $596 million for the CVN 78 *Ford*-class aircraft carrier, $241 million for the Intercontinental Ballistic Missile (ICBM) program, $227 million for the Vehicular Intercommunications Systems Indefinite Delivery and Indefinite Quantity program, and $195 million for the Large Aircraft Infrared Counter-measures Indefinite Delivery and Indefinite Quantity program.

On February 29, 2008, the company won a $1.5 billion contract awarded by the U.S. Air Force as an initial step to replace its aerial refueling tanker fleet. The losing bidder for the contract protested the award decision by the U.S. Air Force. A review of the award process was conducted by the Government Accountability Office (GAO), which issued its report on June 18, 2008 upholding the other bidder's protest. On July 9, 2008, the Secretary of Defense announced that the DoD intends to reopen the bidding for the contract to address certain findings identified by the GAO in its report. The company continues to carry the award in its backlog as of June 30, 2008.

On April 22, 2008, the company was awarded a contract by the U.S. Navy for the Broad Area Maritime Surveillance Unmanned Aircraft System. One of the other bidders for the contract subsequently protested the decision by the U.S. Navy to award the contract to the company. The GAO is currently reviewing the protest and is expected to reach its decision in August 2008.

The estimated value of new contract awards during the six months ended June 30, 2007, is approximately $14.4 billion. Significant new awards during this period include $2.2 billion for LHA-6, $875 million for the Flats Sequencing System program, $510 million for the DDG 1000 *Zumwalt*-class destroyer program, $270 million for the ICBM program, $223 million for the F-22 program, and $185 million for the Joint National Integration Center Research & Development program.

LIQUIDITY AND CAPITAL RESOURCES

The company endeavors to ensure the most efficient conversion of operating results into cash for deployment in growing its businesses and maximizing shareholder value. The company actively manages its capital resources through working capital improvements, prudent capital expenditures, strategic business acquisitions, investment in independent research and development, debt repayments, required and voluntary pension contributions, and returning cash to its shareholders through increased dividend payments and repurchases of common stock.

Company management uses various financial measures to assist in capital deployment decision-making, including net cash provided by operations, free cash flow, net debt-to-equity, and net debt-to-capital. Management believes these measures are useful to investors in assessing the company's financial performance.

The table below summarizes key components of cash flow provided by operating activities.

	Three Months Ended June 30		Six Months Ended June 30	
$ in millions	**2008**	2007	**2008**	2007
Net earnings	**$ 495**	$ 460	**$ 759**	$ 847
Non-cash items[1]	**318**	218	**539**	366
Retiree benefit expense in excess of funding	**15**	51	**46**	98
Change in trade working capital	**40**	221	**(410)**	(178)
Change in income taxes payable	**(196)**	(197)	**(84)**	(20)
Other	**(72)**	(8)	**(53)**	46
Cash used in discontinued operations	**7**	(4)	**4**	(18)
Cash provided by operating activities	**$ 607**	$ 741	**$ 801**	$1,141

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

Free Cash Flow
Free cash flow represents cash generated from operations available for discretionary use after operational cash requirements to improve or maintain levels of production have been met. Free cash flow is a useful measure for investors as it affects the ability of the company to grow by funding strategic business acquisitions and return value to shareholders through repurchasing its shares and paying dividends.

Free cash flow is not a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner. This measure should not be considered in isolation or as an alternative to cash provided by operating activities presented in accordance with GAAP as an indicator of performance.

The table below reconciles cash provided by operations to free cash flow:

	Three Months Ended June 30		Six Months Ended June 30	
$ in millions	**2008**	2007	**2008**	2007
Cash provided by operating activities	**$ 607**	$ 741	**$ 801**	$1,141
Less:				
Capital expenditures	**(134)**	(140)	**(277)**	(298)
Outsourcing contract & related software costs	**(42)**	(50)	**(77)**	(80)
Free cash flow from operations	**$ 431**	$ 551	**$ 447**	$ 763

Cash Flows

The following is a discussion of the company's major operating, investing and financing activities for the six months ended June 30, 2008 and 2007, respectively, as classified on the Condensed Consolidated Statements of Cash Flows in Part I, Item 1.

Operating Activities – Net cash provided by operating activities for the six months ended June 30, 2008, was $801 million compared to net cash provided of $1.1 billion for the same period of 2007. The decrease in net cash provided by operating activities was due principally to higher cash paid to suppliers as compared to cash received from customers in the 2008 period of $284 million, and lower cash insurance proceeds of $120 million, partially offset by a slight improvement in other cash receipts.

For 2008, cash generated from operations supplemented by borrowings under credit facilities is expected to be sufficient to service debt and contract obligations, finance capital expenditures, continue acquisition of shares under the share repurchase program, and continue paying dividends to the company's shareholders.

Investing Activities – Net cash used in investing activities for the six months ended June 30, 2008, was $132 million compared to $917 million in the same period of 2007. The decrease is primarily due to the acquisition of Essex for $590 million in 2007, and the $175 million in proceeds received from the sale of the Electro-Optical Systems (EOS) business in 2008. See Note 5 to the Condensed Consolidated Financial Statements in Part I, Item 1.

Financing Activities – Net cash used in financing activities for the six months ended June 30, 2008, was $1.1 billion compared to $718 million in the same period of 2007. The increase is primarily due to $213 million more in common stock repurchases and $114 million lower proceeds from stock option exercises. See Note 7 to the Condensed Consolidated Financial Statements in Part I, Item 1 for a discussion concerning the company's common stock repurchases.

NEW ACCOUNTING STANDARDS

See Note 2 to the Condensed Consolidated Financial Statements in Part I, Item 1 for information related to new accounting standards.

FORWARD-LOOKING INFORMATION

Statements in this Form 10-Q that are in the future tense, and all statements accompanied by terms such as "believe," "project," "expect," "trend," "estimate," "forecast," "assume," "intend," "plan," "target," "guidance," "anticipate," "outlook," and variations thereof and similar terms are intended to be "forward-looking statements" as defined by federal securities law. Forward-looking statements are based upon assumptions, expectations, plans and projections that are believed valid when made, but that are subject to the risks and uncertainties identified under Risk Factors in the company's 2007 Annual Report on Form 10-K as amended or supplemented by the information, if any, in Part II, Item 1A below, that may cause actual results to differ materially from those expressed or implied in the forward-looking statements.

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

- future revenues;
- expected program performance and cash flows;
- compliance with technical, operational and quality requirements;
- returns on pension plan assets and variability of pension actuarial and related assumptions;
- the outcome of litigation, claims, appeals, bid protests, and investigations;
- hurricane-related insurance recoveries;
- environmental remediation;
- acquisitions and divestitures of businesses;
- joint ventures and other business arrangements;
- access to capital;
- performance issues with key suppliers and subcontractors;
- product performance and the successful execution of internal plans;
- successful negotiation of contracts with labor unions;
- allowability and allocability of costs under U.S. Government contracts;
- effective tax rates and timing and amounts of tax payments;
- the results of any audit or appeal process with the Internal Revenue Service;
- the availability and retention of skilled labor; and
- anticipated costs of capital investments.

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

NORTHROP GRUMMAN CORPORATION

GLOSSARY OF PROGRAMS

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

Program Name	Program Description
Advanced Extremely High Frequency (AEHF)	Provide the communication payload for the nation's next generation military strategic and tactical relay systems that will deliver survivable, protected communications to U.S. forces and selected allies worldwide.
Air Mobility Tanker	Program to replace the U.S. Air Force aerial refueling tanker fleet.
Airborne Laser (ABL)	Design and develop the system's Chemical Oxygen Iodine Laser (COIL) and the Beacon Illuminator Laser (BILL) for Missile Defense Agency's Airborne Laser, providing a capability to destroy boost-phase missiles at very long range.
B-2 Stealth Bomber	Maintain strategic, long-range multi-role bomber with war-fighting capability that combines long range, large payload, all-aspect stealth, and near-precision weapons in one aircraft.
Battlefield Airborne Communication Node (BACN)	USAF program will integrate an airborne communications relay and information server that will provide warfighters and homeland security units with critical battle information.
Broad Area Maritime Surveillance Unmanned Aerial System (BAMS UAS)	A maritime derivative of the Global Hawk that provides persistent maritime Intelligence, Surveillance, and Reconnaissance (ISR) data collection and dissemination capability to the Maritime Patrol and Reconnaissance Force.
Citizenship & Immigration Services (CIS)	Operate and maintain Application Support Center facilities on behalf of U.S. Citizenship & Immigration Services.
Coast Guard's Deepwater Program	Design, develop, construct and deploy surface assets to recapitalize the Coast Guard.
Cobra Judy	The Cobra Judy Replacement program will replace the current U.S. Naval Ship (USNS) Observation Island and its aged AN/SPQ-11 Cobra Judy ballistic missile tracking radar. Northrop Grumman will provide the S-band phased-array radar for use in technical data collection against ballistic missiles in flight.
Command Post Platform (CPP)	Provide a family of vehicles that host multiple battle command and support software suites as well as communications equipment that interface with digitized vehicles.
Counter Rocket Artillery Mortar (CRAM)	Provide system engineering and installation support for Counter Rocket Artillery and Mortar Systems to protect troops at Forward Operating base for Operation Iraqi Freedom.
Counter Radio-Controlled Improvised Explosive Device Electronic Warfare (CREW)	CREW systems are electronic jammers designed to prevent the initiation of Radio-Controlled Improvised Explosive Devices (RCIEDs). Northrop Grumman will rapidly develop and demonstrate flexible CREW technology and systems that address evolving threats. The company will deliver seven dismounted and seven mounted development model CREW systems and provide engineering support services, training, maintenance and repair.
Cutlass	Design, develop, test and manufacture Explosive Ordinance Disposal (EOD) Remote Control Vehicle Systems.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
CVN 78 *Ford*-class	Design and construction for the new class of Aircraft Carriers.
DDG 1000 Zumwalt-class Destroyer	Design the first in a class of the U.S. Navy's multi-mission surface combatants tailored for land attack and littoral dominance.
DDG 51	Build Aegis guided missile destroyer, equipped for conducting anti-air, anti-submarine, anti-surface and strike operations.
Defense Support (DSP)	Satellite system that detects, characterizes, and reports ballistic missile launches.
E-10A	Mission Execution Program (MEP) to continue to mature the technologies of the E-10A Battle Management/Command and Control capabilities.
EA-6B (Prowler)	The Prowler is currently the armed services' only offensive tactical radar jamming aircraft. The company has developed the next generation mission system for this aircraft under the Increased Capacity (ICAP) III contract and has completed the final test and evaluation phase. The company completed the low-rate initial production for ICAP III Kits during 2006, and was awarded a follow-on contract for ICAP III Kits & Spares, with deliveries commencing in 2007. In addition, the company is performing on a contract to incorporate the ICAP III mission system into an F/A-18 platform, designated the EA-18G.
ELINT Modernization Information, Management & Storage Increment 1 (EMOD IM&S)	Design, development and deployment of a multi-Petabyte, logically centralized, geographically distributed, secure information management and storage system for TechSIGINT data.
F/A - 18	Produce the center and aft fuselage sections, twin vertical stabilizers, and integrate all associated subsystems for the F/A-18 Hornet strike fighters.
F-16 Block 60	Direct commercial firm fixed-price program with Lockheed Martin Aeronautics Company to develop and produce 80 Lot systems for aircraft delivery to the United Arab Emirates Air Force as well as test equipment and spares to be used to support in-country repairs of sensors.
F-22	Joint venture with Raytheon to design, develop and produce the F-22 radar system. Northrop Grumman is responsible for the overall design of the AN/APG-77 and AN/APG-77(V) 1 radar systems, including the control and signal processing software and responsibility for the AESA radar systems integration and test activities. In addition, Northrop Grumman is responsible for overall design and integration of the F-22 Communication, Navigation, and Identification (CNI) system.
F-35 Development (Joint Strike Fighter)	Design, integration, and/or development of the center fuselage and weapons bay, communications, navigations, identification subsystem, systems engineering, and mission systems software as well as provide ground and flight test support, modeling, simulation activities, and training courseware.
Force XXI Battle Brigade and Below Installation Kits (FBCB2 I-Kits)	Install in Army vehicles a system of computer hardware and software that forms a wireless, tactical Internet for near-real-time situational awareness and command and control on the battlefield.
Flats Sequencing System/Postal Automation	Build systems for the U.S. Postal Service designed to further automate the flats mail stream, which includes large envelopes, catalogs and magazines.

NORTHROP GRUMMAN CORPORATION

Program Name	**Program Description**
FSC Oklahoma City	The company performs work including technical management and logistics, engineering and technical services, aircraft engine sustainment, and planning and analysis.
Global Hawk High-Altitude, Long-Endurance (HALE) Systems	Provide the Global Hawk HALE Systems unmanned aerial system for use in the global war on terror and has a central role in Intelligence, Reconnaissance, and Surveillance supporting operations in Afghanistan and Iraq.
Ground/Air Task Oriented Radar (G/ATOR)	A development program to provide the next generation ground based multi-mission radar for the USMC. Provides Short Range Air Defense, Air Defense Surveillance, Ground Weapon Location and Air Traffic Control. Replaces five existing USMC single-mission radars.
Ground-Based Midcourse Defense Fire Control and Communications (GFC/C)	Develop software to coordinate sensor and interceptor operations during missile flight.
Hunter CLS	Operate, maintain, train and sustain the multi-mission Hunter Unmanned Aerial System in addition to deploying Hunter support teams.
Inertial Navigation Programs	Consists of a wide variety of opportunities across land, sea and space that address the customers' needs for precise knowledge of position, velocity, attitude, and heading. These applications include platforms, such as the F-16, satellites and ground vehicles as well as for sensors such as radar, MP-RTIP, and EO/IR pods. Many inertial applications require integration with GPS to provide a very high level of precision and long term stability.
Intercontinental Ballistic Missile (ICBM)	Maintain readiness of the nation's ICBM weapon system.
James Webb Space Telescope (JWST)	Design, develop, integrate and test a space-based infrared telescope satellite to observe the formation of the first stars and galaxies in the universe.
Joint Base Operations Support	Provides all infrastructure support needed for launch and base operations at the NASA Spaceport.
Joint National Integration Center Research & Development (JRDC)	Support the development and application of modeling and simulation, wargaming, test and analytic tools for air and missile defense.
Joint Tactical Radio System Airborne and Maritime/Fixed Station (JTRS AMF)	Joint Tactical Radio System Airborne and Maritime/Fixed Station (JTRS AMF) will develop a communications capability that includes two software-defined, multifunction radio form factors for the use by the U.S. Department of Defense and potential use by the U.S. Department of Homeland Security. Northrop Grumman has the responsibility for leading the Joint Tactical Radio (JTR) integrated product team and co-development of the JTR small airborne (JTR-SA) hardware and software. The company will also provide common JTR software for two JTR form factors, wideband power amplifiers, and the use of Northrop Grumman's Advanced Communications Test Center in San Diego as the integration and test site for the JTR-SA radio, waveforms and ancillaries.
Kinetic Energy Interceptor (KEI)	Develop mobile missile-defense system with the unique capability to destroy a hostile missile during its boost, ascent or midcourse phase of flight.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
Large Aircraft Infrared Counter-measures Indefinite Delivery and Indefinite Quantity (LAIRCM IDIQ)	Infrared countermeasures systems for C-17 and C-130 aircraft. The IDIQ contract will further allow for the purchase of LAIRCM hardware for foreign military sales and other government agencies.
LHA	Detail design and construct amphibious assault ships for use as an integral part of joint, interagency, and multinational maritime forces.
LHD	Detail design and construct multipurpose amphibious assault ships.
LPD	Detail design and construct amphibious transport dock ships.
Multi-Platform Radar Technology Insertion Program (MP-RTIP)	Design, develop, fabricate and test modular, scalable 2-dimensional active electronically scanned array (2D-AESA) radars for integration on the Global Hawk HALE Systems and other platforms. Also provides enhanced Wide Area Surveillance system capabilities.
National Polar-orbiting Operational Environmental Satellite System (NPOESS)	Design, develop, integrate, test, and operate an integrated system comprised of two satellites with mission sensors and associated ground elements for providing global and regional weather and environmental data.
Navstar Global Positioning System (GPS) Operational Control Segment (OCX)	Navstar Global Positioning System (GPS) Operational Control Segment (OCX) Operational control system for existing and future GPS constellation. Includes all satellite C2, mission planning, constellation management, external interfaces, monitoring stations, and ground antennas. Phase A effort includes effort to accomplish a System Requirements Review (SRR), System Design Review (SDR), and development of a Mission Capabilities Engineering Model (MCEM) prototype.
Network Centric Solution	Provide Network-Centric Information Technology, Networking, Telephony and Security, Voice, Video and Data Communications Commercial-off-the-Shelf products, system solutions, hardware and software.
Nevada Test Site (NTS)	Manage and operate the Nevada Test Site facility and provide infrastructure support, including management of the nuclear explosives safety team, support of hazardous chemical spill testing, emergency response training and conventional weapons testing.
New York City Wireless	Provide New York City’s broadband public-safety wireless network.
Qatar Transportation	Provide all resources and management necessary to manage, operate, and maintain a fleet of 662 U.S. Air Force registered vehicles, 260 U.S. Air Force non-registered vehicles, and manage 717 leased vehicles for AL Udeid Air Base in the State of Qatar.
San Diego County IT Outsourcing	Provide high-level IT consulting and services to San Diego County including data center, help desk, desktop, network, applications and cross-functional services.
Space Based Infrared System (SBIRS)	Space-based surveillance systems for missile warning, missile defense, battlespace characterization and technical intelligence. SBIRS will meet United Stated infrared space surveillance needs through the next 2-3 decades.

Program Name	Program Description
Space Radar	Develop system concepts and architecture as part of the first phase of this program to provide a range of radar-generated products from space to enhance the nation's intelligence, surveillance, and reconnaissance (ISR) capabilities for warfighers and the intelligence community.
Space Tracking and Surveillance System (STSS)	Develop a critical system for the nation's missile defense architecture employing low-earth orbit satellites with onboard infrared sensors to detect, track and discriminate ballistic missiles. The program includes two flight demonstration satellites with subsequent development and production blocks of satellites.
Transformational Satellite Communication System-Risk Reduction and System Definition (TSAT RR&SD)	Design, develop, brassboard and demonstrate key technologies to reduce risk in the TSAT space element and perform additional risk mitigation activities.
Unmanned Combat Air System Carrier Demonstration (UCAS-D)	A development / demonstration contract that will design, build and test two demonstration vehicles that will conduct a carrier demonstration. The technology demonstrations are to show carrier control area operations, catapult launch, and an arrested landing of a low observable unmanned aerial vehicle.
USS Enterprise Extended Docking Selected Restricted Availability (EDSRA)	Extended Docking Selected Restricted Availability includes overhaul, maintenance and repairs to the ship and its systems.
V(9) New Fighter Aircraft (V(9) NFA)	Upgraded F-16 Fire Control Radar System. The system consists of the following Line Replaceable Units (LRU's): Antenna, Medium Duty Transmitter (MDT), Modular Receiver Exciter (MoRE), and Common Radar Processor (CoRP). The system is being procured for Foreign Military Sales (FMS) customers through the F-16 Systems Group at Wright Patterson Air Force Base in Dayton, Ohio.
Vehicular Intercommunications Systems Indefinite Delivery and Indefinite Quantity (VIS IDIQ)	Provide clear and noise-free communications between crew members inside combat vehicles and externally over as many as six combat net radios for the U.S. Army. The active noise-reduction features of VIS provide significant improvement in speech intelligibility, hearing protection, and vehicle crew performance.
Virginia IT outsourcing	Provide high-level IT consulting and services to Virginia state and local agencies including data center, help desk, desktop, network, applications and cross-functional services.
Wedgetail	Joint program with Boeing to supply MESA radar antenna for AEW&C aircraft.
Western Range Operations, Communications & Information	Provide the Air Force Western Range with operations and maintenance services at Vandenberg AFB.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rates – The company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include fixed-rate long-term debt obligations, variable-rate short-term borrowings under the credit agreement, short-term investments, and long-term notes receivable. At June 30, 2008, substantially all outstanding borrowings were fixed-rate long-term debt obligations of which a significant portion are not callable until maturity. The company has a modest exposure to interest rate risk resulting from two interest rate swap agreements. The company's sensitivity to a 1 percent change in interest rates is tied to its $2 billion credit agreement, which had no balance outstanding at June 30, 2008 or December 31, 2007, and the aforementioned interest rate swap agreements.

Derivatives – The company does not hold or issue derivative financial instruments for trading purposes. The company may enter into interest rate swap agreements to manage its exposure to interest rate fluctuations. At June 30, 2008 and December 31, 2007, two interest rate swap agreements were in effect.

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, 2008 and December 31, 2007, the amount of foreign currency forward contracts outstanding was not material. Market risk exposure relating to foreign currency exchange transactions is immaterial to the consolidated financial statements.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The company's principal executive officer (Chairman and Chief Executive Officer) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of June 30, 2008, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934 (15 USC § 78a et seq) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2008, no change occurred in the company's internal control over financial reporting that materially affected, or is likely to materially affect, the company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

As previously disclosed, on May 17, 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Program for eight converted 123-foot patrol boats (the vessels) based on alleged "hull buckling and shaft alignment problems." By letter dated June 5, 2007, the Coast Guard stated that the revocation of acceptance also was based on alleged "nonconforming topside equipment" on the vessels. On August 13, 2007, the company submitted a response to the Coast Guard, maintaining that the revocation of acceptance was improper. In late December 2007, the Coast Guard responded to the company's August submittal and advised Integrated Coast Guard Systems (the contractors' joint venture for performing the Deepwater Program) that the Coast Guard is seeking $96.1 million from the Joint Venture as a result of the revocation of acceptance of the eight vessels delivered under the 123-foot conversion program. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with the company and a subcontractor to the company. The letter is not a contracting officer's final decision. On May 14, 2008, the Coast Guard advised the Joint Venture that the Coast Guard had decided to suspend its pursuit of the $96.1 million claim and to support instead an investigation by the U.S. Department of Justice of the Joint Venture and its subcontractors. The Department of Justice had previously issued subpoenas related to the Deepwater Program, pursuant to which the company has provided and continues to provide responsive documents. Based upon the information available to the company to date, the company believes that it has substantive defenses to any potential claims but can give no assurance that its views will prevail.

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

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

As previously disclosed, the U.S. District Court for the Central District of California consolidated two separately filed Employee Retirement Income Security Act (ERISA) lawsuits, which the plaintiffs seek to have certified as class actions, into the In Re Northrop Grumman Corporation ERISA Litigation. On August 7, 2007, the Court denied plaintiffs' motion for class certification, and the plaintiffs appealed the Court's decision on class certification to the U.S. Court of Appeals for the Ninth Circuit. On October 11, 2007, the Ninth Circuit granted appellate review, which delayed the commencement of trial previously scheduled to begin January 22, 2008. The company believes, but can give no assurance, that the outcome of these matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Other Matters

In the event of contract termination for the government's convenience, contractors are normally protected by provisions covering reimbursement for costs incurred under the contract. As previously disclosed, the company received a termination for convenience notice on the Tri-Service Standoff Attack Missile (TSSAM) program in 1995. In December 1996, the company filed a lawsuit against the U.S. Government in the U.S. Court of Federal Claims seeking the recovery of approximately $750 million for uncompensated performance costs, investments and a reasonable profit on the program. Prior to 1996, the company had charged to operations in excess of $600 million related to this program. The company is unable to predict whether it will realize some or all of its claims, none of which are recorded on its consolidated statement of financial position, from the U.S. Government related to the TSSAM program.

As previously disclosed, the company is pursuing legal action against an insurance provider arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see Note 10 to the Condensed Consolidated Financial Statements in Part I, Item 1). The company commenced the action against Factory Mutual Insurance Company (FM Global) on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the district court issued an order finding that the excess insurance policy provided coverage for the company's Katrina-related loss. In November 2007, FM Global filed a notice of appeal of the district court's order. Based on the current status of the assessment and claim process, no assurances can be made as to the ultimate outcome of this matter.

Item 1A. Risk Factors

There are no material changes to the risk factors previously disclosed in the company's 2007 Annual Report on Form 10-K.

NORTHROP GRUMMAN CORPORATION

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

Purchases of Equity Securities – The table below summarizes the company's repurchases of common stock during the three months ended June 30, 2008.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Numbers of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2008 – April 30, 2008	324,300	$74.21	324,300	$1.9 billion
May 1, 2008 – May 31, 2008	2,426,500	74.66	2,426,500	1.7 billion
June 1, 2008 – June 30, 2008				1.7 billion
Total	**2,750,800**	$74.61	**2,750,800**	$1.7 billion

(1) On December 19, 2007, the company's board of directors authorized a share repurchase program of up to $2.5 billion of its outstanding common stock.

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

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

a) *Annual Meeting* –

The annual meeting of stockholders of Northrop Grumman Corporation was held May 21, 2008.

b) *Election of Directors* –

The following Director nominees were elected at the annual meeting:

Lewis W. Coleman
Thomas B. Fargo
Victor H. Fazio
Donald E. Felsinger
Stephen E. Frank
Phillip Frost
Charles R. Larson
Richard B. Myers
Aulana L. Peters
Kevin W. Sharer
Ronald D. Sugar

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

Directors:	Votes For	Votes Withheld	Votes Abstaining
Lewis W. Coleman	293,528,591	12,343,832	4,199,240
Thomas B. Fargo	301,471,489	4,410,488	4,189,686
Victor H. Fazio	301,884,774	3,980,881	4,206,008
Donald E. Felsinger	301,639,999	4,157,361	4,274,303
Stephen E. Frank	300,801,820	5,095,663	4,174,180
Phillip Frost	225,911,127	79,490,619	4,669,917
Charles R. Larson	301,909,591	4,084,186	4,077,886
Richard B. Myers	301,280,775	4,726,905	4,063,983
Aulana L. Peters	299,330,109	6,662,829	4,078,725
Kevin W. Sharer	300,182,149	5,700,187	4,189,327
Ronald D. Sugar	299,958,470	6,289,371	3,823,822

	Votes For	Votes Against	Votes Abstaining	Broker Non-Votes
Ratification of the appointment of Deloitte & Touche LLP as the company's independent auditors for 2008	302,635,560	3,792,314	3,643,789	0
Proposal approving performance criteria for the Northrop Grumman Corporation 2001 Long-Term Incentive Stock Plan	259,969,648	45,435,314	4,666,701	0
Stockholder Proposal regarding report of company's foreign military sales	16,166,957	227,188,943	42,691,677	24,024,086
Stockholder Proposal regarding stockholder ratification of compensation of company's senior executive officers	113,266,063	162,104,352	10,677,162	24,024,086
Stockholder Proposal regarding adoption of policy on tax gross-up payments to company's senior executive officers	113,620,849	161,196,079	11,230,649	24,024,086

Item 5. Other Information

No information is required in response to this item.

NORTHROP GRUMMAN CORPORATION

Item 6. Exhibits

3.1	Bylaws of Northrop Grumman Corporation, as amended May 21, 2008 (incorporated by reference to Exhibit 3.2 to Form 8-K dated May 21, 2008 and filed May 27, 2008)
* 10.1	Northrop Grumman Executive Medical Plan Benefit Matrix effective July 1, 2008
* 10.2	Executive Long-Term Disability Insurance Policy as amended by Amendment No. 2 dated June 19, 2008 and effective as of October 4, 2007
* 15	Letter from Independent Registered Public Accounting Firm
* 31.1	Rule 13a-15(e)/15d-15(e) Certification of Ronald D. Sugar (Section 302 of the Sarbanes-Oxley Act of 2002)
* 31.2	Rule 13a-15(e)/15d-15(e) Certification of James F. Palmer (Section 302 of the Sarbanes-Oxley Act of 2002)
**32.1	Certification of Ronald D. Sugar pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of James F. Palmer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed with this Report

** Furnished with this Report

SIGNATURES

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

NORTHROP GRUMMAN CORPORATION
(Registrant)

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

Date: July 29, 2008

Exhibit 10.1

Northrop Grumman Executive Health Plan Matrix

Plan Feature	Benefit
Eligibility	Employee + Spouse & Dependents
Medical Plan	Premium PPO Plan administered by Anthem Blue Cross Blue Shield
Coverage	100% coverage, for all eligible plan expenses
Annual Deductible	No annual deductible
Co-payment/Co-insurance	No co-payments/No co-insurance
Preventive Care Coverage	100% coverage for routine physicals, immunizations, and other eligible services as determined by the Plan.
Prescription Drug Coverage	Covered under Medical Plan
Annual Deductible	No annual deductible
Coverage — retail 30-day supply	100% coverage, when network pharmacy is utilized
Coverage — mail order 90-day supply	100% coverage, when network pharmacy is utilized
Vision and Hearing Coverage	$500 vision/ $500 per year per plan year per covered individual; hearing expenses are covered at 100% for exam, hearing aids and hearing aid repair
Acupuncture and Acupressure	20 visits (combined) — per person, per plan year
Chiropractic Care	40 visits per benefit plan year
Physical Therapy	50 visits per benefit plan year (in and out-of-network combined)
Speech Therapy	50 visits per benefit plan year (in and out-of-network combined)
Occupational Therapy	50 visits per benefit plan year (in and out-of-network combined)
Mental Health Coverage	Mental health is 100% covered (in and out-of-network combined)
Inpatient treatment must be pre-authorized by Value Options	Unlimited office visits (in and out-of-network); maximum for substance abuse is three courses of treatment (in- and out-of-network combined)
Mental Health Maximums	Combined Lifetime Limits — included in $2 million per person Medical lifetime maximum
Health Plan Lifetime Maximums	$2,000,000.00 per covered individual, including mental health benefits
Dental Plan	Premium PPO Plan administered by Delta Dental
Annual maximum	$4,000 per person — per benefit plan year
Coverage	100% coverage, for all eligible plan expenses up to annual maximum
Annual Deductible	No annual deductible
Co-payment/Co-insurance	No co-payment/No co-insurance

Plan Feature	Benefit
Eligibility	Employee
Life Insurance Coverage	Company-paid life insurance 3x Annual base salary up to a maximum of $2 million
Accidental Death & Dismemberment (AD&D) Coverage	Company-paid accidental death & dismemberment insurance — 6 x Annual base salary up to a maximum of $1 million
Long-Term Disability (LTD)	Company-paid basic LTD benefit of 75% of monthly base salary, up to a maximum monthly benefit of $25,000
Executive Physicals	$2,000/year allowance for executive physical

Effective July 1, 2008

Exhibit 10.2

AMENDMENT NO. 2

This amendment forms a part of Group Policy No. 587628 002 issued to the Policyholder:

Northrop Grumman Corporation

The entire policy is replaced by the policy attached to this amendment.

The effective date of these changes is October 4, 2007. The changes only apply to disabilities which start on or after the effective date.

The policy's terms and provisions will apply other than as stated in this amendment.

Dated at Portland, Maine on June 19, 2008.

Unum Life Insurance Company of America

By

Secretary

If this amendment is unacceptable, please sign below and return this amendment to Unum Life Insurance Company of America at Portland, Maine within 90 days of June 19, 2008.

YOUR FAILURE TO SIGN AND RETURN THIS AMENDMENT BY THAT DATE WILL CONSTITUTE ACCEPTANCE OF THIS AMENDMENT.

Northrop Grumman Corporation

By ____

Signature and Title of Officer

C.AMEND-1 AMEND-1 (10/4/2007)

GROUP INSURANCE POLICY
NON-PARTICIPATING

POLICYHOLDER: Northrop Grumman Corporation

POLICY NUMBER: 587628 002

POLICY EFFECTIVE DATE: July 1, 2006

POLICY ANNIVERSARY DATE: July 1

GOVERNING JURISDICTION: Virginia

Unum Life Insurance Company of America (referred to as Unum) will provide benefits under this policy. Unum makes this promise subject to all of this policy's provisions.

The policyholder should read this policy carefully and contact Unum promptly with any questions. This policy is delivered in and is governed by the laws of the governing jurisdiction and to the extent applicable by the Employee Retirement Income Security Act of 1974 (ERISA) and any amendments. This policy consists of:

– all policy provisions and any amendments and/or attachments issued;

– employees' signed applications; and

– the certificate of coverage.

This policy may be changed in whole or in part. Only an officer or a registrar of Unum can approve a change. The approval must be in writing and endorsed on or attached to this policy. No other person, including an agent, may change this policy or waive any part of it.

Signed for Unum at Portland, Maine on the Policy Effective Date.

President

Secretary

Unum Life Insurance Company of America
2211 Congress Street
Portland, Maine 04122

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BENEFITS AT A GLANCE

LONG TERM DISABILITY PLAN

This long term disability plan provides financial protection for you by paying a portion of your income while you are disabled. The amount you receive is based on the amount you earned before your disability began. In some cases, you can receive disability payments even if you work while you are disabled.

EMPLOYER'S ORIGINAL PLAN
EFFECTIVE DATE: July 1, 2006

POLICY NUMBER: 587628 002

ELIGIBLE GROUP(S):

All elected or appointed officers in active employment who are elected by the Board of Directors

MINIMUM HOURS REQUIREMENT:

Employees must be working at least 20 hours per week.

WAITING PERIOD:

For employees in an eligible group on or before July 1, 2006: None

For employees entering an eligible group after July 1, 2006: None

CREDIT PRIOR SERVICE:

Unum will apply any prior period of work with your Employer toward the pre-existing condition period for the purpose of satisfying the pre-existing condition period.

WHO PAYS FOR THE COVERAGE:

Your Employer pays the cost of your coverage.

ELIMINATION PERIOD:

6 months

Benefits begin the day after the elimination period is completed.

MONTHLY BENEFIT:

65% of monthly earnings to a maximum benefit of $15,000 per month.

Your payment may be reduced by deductible sources of income and disability earnings. Some disabilities may not be covered or may have limited coverage under this plan.

MAXIMUM PERIOD OF PAYMENT:

Age at Disability	Maximum Period of Payment
Less than age 60	To age 65, but not less than 5 years
Age 60	60 months
Age 61	48 months
Age 62	42 months
Age 63	36 months
Age 64	30 months
Age 65	24 months
Age 66	21 months
Age 67	18 months
Age 68	15 months
Age 69 and over	12 months

No premium payments are required for your coverage while you are receiving payments under this plan.

OTHER FEATURES:

Continuity of Coverage

Minimum Benefit

Pre-Existing: 3/12

Survivor Benefit

The above items are only highlights of this plan. For a full description of your coverage, continue reading your certificate of coverage section.

CLAIM INFORMATION

LONG TERM DISABILITY

WHEN DO YOU NOTIFY UNUM OF A CLAIM?

We encourage you to notify us of a claim as soon as possible, so that a claim decision can be made in a timely manner. Telephonic notice as authorized by us or written notice of claim should be provided within 30 days after the date your disability begins. However, you must provide Unum written proof of your claim no later than 90 days after your elimination period. If it is not possible to give proof within 90 days, it must be given no later than 1 year after the time proof is otherwise required except in the absence of legal capacity.

If you choose to file a written notice of claim, the claim form is available from your employer, or you can request a claim form from us. If you do not receive the form from Unum within 15 days of your request, send Unum written proof of claim without waiting for the form.

You must notify us immediately when you return to work in any capacity.

HOW DO YOU FILE A CLAIM?

You may file notice of claim by telephonic means. The telephone number is available through your employer. You will be required to sign an authorization form in order for Unum to obtain medical information from your attending physician. Should Unum be unable to obtain your medical information, we will send a letter and appropriate forms to you for completion to be returned to us by the date determined in the letter.

If you choose to file written notice of claim, you and your employer must complete your own sections of the claim form and then give it to your attending physician. Your physician should complete his or her section of the form and send it directly to Unum.

WHAT INFORMATION IS NEEDED AS PROOF OF YOUR CLAIM?

Your proof of claim, provided at your expense, must show:

- that you are under the **regular care** of a **physician**;
- the appropriate documentation of your monthly earnings;
- the date your disability began;
- the cause of your disability;
- the extent of your disability, including restrictions and limitations preventing you from performing your regular occupation; and
- the name and address of any **hospital or institution** where you received treatment, including all attending physicians.

We may request that you send proof of continuing disability indicating that you are under the regular care of a physician. This proof, provided at your expense, must be received within 45 days of a request by us.

In some cases, you will be required to give Unum authorization to obtain additional medical information and to provide non-medical information as part of your proof of claim, or proof of continuing disability. Unum will deny your claim, or stop sending you payments, if the appropriate information is not submitted.

TO WHOM WILL UNUM MAKE PAYMENTS?

Unum will make payments to you.

WHAT HAPPENS IF UNUM OVERPAYS YOUR CLAIM?

Unum has the right to recover any overpayments due to:

- fraud;
- any error Unum makes in processing a claim; and
- your receipt of deductible sources of income.

You must reimburse us in full. We will determine the method by which the repayment is to be made.

Unum will not recover more money than the amount we paid you.

POLICYHOLDER PROVISIONS

WHAT IS THE COST OF THIS INSURANCE?

LONG TERM DISABILITY

The initial premium for each **plan** is based on the initial rate(s) shown in the Rate Information Amendment(s).

WAIVER OF PREMIUM

Unum does not require premium payments for an insured while he or she is receiving Long Term Disability payments under this plan.

INITIAL RATE GUARANTEE

Refer to the Rate Information Amendment(s).

WHEN IS PREMIUM DUE FOR THIS POLICY?

Premium Due Dates: Premium due dates are based on the Premium Due Dates shown in the Rate Information Amendment(s).

The **Policyholder** must send all premiums to Unum on or before their respective due date. The premium must be paid in United States dollars.

WHEN ARE INCREASES OR DECREASES IN PREMIUM DUE?

Premium increases or decreases, for other than salary changes, which take effect during a plan month are adjusted and due on the next premium due date following the change. Changes will be pro-rated daily. Premium due dates are shown in the Rate Information Amendment.

Premium increases or decreases due to salary changes are to be adjusted on the first day of the next plan year.

If premiums are paid on other than a monthly basis, premiums for increases and decreases will result in a monthly pro-rated adjustment on the next premium due date.

Unum will only adjust premium for the current plan year and the prior plan year. In the case of fraud, premium adjustments will be made for all plan years.

WHAT INFORMATION DOES UNUM REQUIRE FROM THE POLICYHOLDER?

The Policyholder must provide Unum with the following on a regular basis:

- information about employees:
  - who are eligible to become insured;
  - whose amounts of coverage change; and/or
  - whose coverage ends;
- occupational information and any other information that may be required to manage a claim; and
- any other information that may be reasonably required.

Policyholder records that, in Unum's reasonable opinion, have a bearing on this policy will be available for review by Unum within 30 days of Unum's request.

Clerical error or omission by Unum will not:

- prevent an employee from receiving coverage;
- affect the amount of an insured's coverage; or
- cause an employee's coverage to begin or continue when the coverage would not otherwise be effective.

WHO CAN CANCEL THIS POLICY OR A PLAN UNDER THIS POLICY?

This policy or a plan under this policy can be cancelled:

- by Unum; or
- by the Policyholder.

Unum may cancel or offer to modify this policy or a plan if:

- there is less than 25% participation of those eligible employees who pay all or part of their premium for a plan; or
- there is less than 100% participation of those eligible employees for a Policyholder paid plan;
- the Policyholder does not promptly provide Unum with information that is reasonably required;
- the Policyholder fails to perform any of its obligations that relate to this policy;
- fewer than 25 employees are insured under a plan;
- the Policyholder fails to pay any premium within the 60 day **grace period**.

If Unum cancels this policy or a plan for reasons other than the Policyholder's failure to pay premium, a written notice will be delivered to the Policyholder at least 120 days prior to the cancellation date.

If the premium is not paid during the grace period, the policy or plan will terminate automatically at the end of the grace period. The Policyholder is liable for premium for coverage during the grace period. The Policyholder must pay Unum all premium due for the full period each plan is in force.

The Policyholder may cancel this policy or a plan by written notice delivered to Unum at least 31 days prior to the cancellation date. When both the Policyholder and Unum agree, this policy or a plan can be cancelled on an earlier date. If Unum or the Policyholder cancels this policy or a plan, coverage will end at 12:00 midnight on the last day of coverage.

If this policy or a plan is cancelled, the cancellation will not affect a **payable claim**.

WHAT HAPPENS TO AN EMPLOYEE'S COVERAGE UNDER THIS POLICY WHILE HE OR SHE IS ON A FAMILY AND MEDICAL LEAVE OF ABSENCE?

We will continue the employee's coverage in accordance with the policyholder's Human Resource policy on family and medical leaves of absence if premium payments continue and the policyholder approved the employee's leave in writing.

Coverage continues to the end of the month plus four additional months from the day your leave begins for Basic Long Term Disability.

If the policyholder's Human Resource policy doesn't provide for continuation of an employee's coverage during a family and medical leave of absence, the employee's coverage will be reinstated when he or she returns to active employment.

We will not:

– apply a new waiting period;

– apply a new pre-existing conditions exclusion; or

– require evidence of insurability.

DIVISIONS, SUBSIDIARIES OR AFFILIATED COMPANIES INCLUDE:

NAME/LOCATION (CITY AND STATE)

Refer to the Northrop Grumman Account Structure Document that is located in the contract file for a listing of names and locations approved by Unum.

CERTIFICATE SECTION

Unum Life Insurance Company of America (referred to as Unum) welcomes you as a client.

This is your certificate of coverage as long as you are eligible for coverage and you become insured. You will want to read it carefully and keep it in a safe place.

Unum has written your certificate of coverage in plain English. However, a few terms and provisions are written as required by insurance law. If you have any questions about any of the terms and provisions, please consult Unum's claims paying office. Unum will assist you in any way to help you understand your benefits.

If the terms and provisions of the certificate of coverage (issued to you) are different from the policy (issued to the policyholder), the policy will govern. Your coverage may be cancelled or changed in whole or in part under the terms and provisions of the policy.

The policy is delivered in and is governed by the laws of the governing jurisdiction and to the extent applicable by the Employee Retirement Income Security Act of 1974 (ERISA) and any amendments. When making a benefit determination under the policy, Unum has discretionary authority to determine your eligibility for benefits and to interpret the terms and provisions of the policy.

For purposes of effective dates and ending dates under the group policy, all days begin at 12:01 a.m. and end at 12:00 midnight at the Policyholder's address.

Unum Life Insurance Company of America
2211 Congress Street
Portland, Maine 04122

GENERAL PROVISIONS

WHAT IS THE CERTIFICATE OF COVERAGE?

This certificate of coverage is a written statement prepared by Unum and may include attachments. It tells you:

- the coverage for which you may be entitled;
- to whom Unum will make a payment; and
- the limitations, exclusions and requirements that apply within a plan.

Unum will provide your Employer with a certificate of coverage for delivery to each insured.

WHEN ARE YOU ELIGIBLE FOR COVERAGE?

If you are working for your Employer in an eligible group, the date you are eligible for coverage is the later of:

- the plan effective date; or
- the date you enter an eligible group.

WHEN DOES YOUR COVERAGE BEGIN?

When your Employer pays 100% of the cost of your coverage under a plan, you will be covered at 12:01 a.m. on the date you are eligible for coverage.

WHAT IF YOU ARE ABSENT FROM WORK ON THE DATE YOUR COVERAGE WOULD NORMALLY BEGIN?

If you are absent from work due to injury, sickness or temporary leave of absence, your coverage will begin on the date you return to **active employment**.

ONCE YOUR COVERAGE BEGINS, WHAT HAPPENS IF YOU ARE TEMPORARILY NOT WORKING?

If you are on a **leave of absence**, and if premium is paid, you will be covered through the end of the month that immediately follows the month in which your leave of absence begins.

WHEN WILL CHANGES TO YOUR COVERAGE TAKE EFFECT?

Once your coverage begins, any increased or additional coverage due to a change in your monthly earnings or due to a plan change requested by your Employer will take effect immediately if you are in active employment or if you are on a covered leave of absence. If you are not in active employment due to injury or sickness, any increased or additional coverage will begin on the date you return to active employment.

Any decrease in coverage will take effect immediately but will not affect a **payable claim** that occurs prior to the decrease.

WHEN DOES YOUR COVERAGE END?

Your coverage under the policy or a plan ends on the earliest of:

– the date the policy or a plan is cancelled;

– the date you no longer are in an eligible group;

– the date your eligible group is no longer covered;

– the last day of the period for which you made any required contributions; or

– the last day you are in active employment except as provided under the covered leave of absence provision.

Unum will provide coverage for a payable claim which occurs while you are covered under the policy or plan.

WHAT ARE THE TIME LIMITS FOR LEGAL PROCEEDINGS?

You can start legal action regarding your claim 60 days after proof of claim has been given and up to 3 years from the time proof of claim is required, unless otherwise provided under federal law.

HOW CAN STATEMENTS MADE IN YOUR APPLICATION FOR THIS COVERAGE BE USED?

Unum considers any statements you or your Employer make in a signed application for coverage a representation and not a warranty. If any of the statements you or your Employer make are not complete and/or not true at the time they are made, we can:

– reduce or deny any claim; or

– cancel your coverage from the original effective date.

We will use only statements made in a signed application as a basis for doing this. A copy of the statements will be provided to you, your beneficiary or personal representative. These statements cannot be used to reduce or deny coverage if your coverage has been in force for at least 2 years.

However, if the Employer gives us information about you that is incorrect, we will:

– use the facts to determine if you have coverage under the plan according to the policy provisions and in what amounts; and

– make a fair adjustment of the premium.

DOES THE POLICY REPLACE OR AFFECT ANY WORKERS' COMPENSATION OR STATE DISABILITY INSURANCE?

The policy does not replace or affect the requirements for coverage by any workers' compensation or state disability insurance.

DOES YOUR EMPLOYER ACT AS YOUR AGENT OR UNUM'S AGENT?

For purposes of the policy, your Employer acts on its own behalf and not as your agent. Under no circumstances will your Employer be deemed the agent of Unum.

LONG TERM DISABILITY
BENEFIT INFORMATION

HOW DOES UNUM DEFINE DISABILITY?

You are disabled when Unum determines that:

- you are **limited** from performing the **material and substantial duties** of your **regular occupation** due to your **sickness** or **injury**; and
- you have a 20% or more loss in your **indexed monthly earnings** due to the same sickness or injury.

After 24 months of payments, you are disabled when Unum determines that due to the same sickness or injury, you are unable to perform the duties of any **gainful occupation** for which you are reasonably fitted by education, training or experience.

The loss of a professional or occupational license or certification does not, in itself, constitute disability.

We may require you to be examined by a physician, other medical practitioner and/or vocational expert of our choice. Unum will pay for this examination. We can require an examination as often as it is reasonable to do so. We may also require you to be interviewed by an authorized Unum Representative.

HOW LONG MUST YOU BE DISABLED BEFORE YOU ARE ELIGIBLE TO RECEIVE BENEFITS?

You must be continuously disabled through your **elimination period**. Unum will treat your disability as continuous if your disability stops for 30 days or less during the elimination period. The days that you are not disabled will not count toward your elimination period.

Your elimination period is 6 months.

CAN YOU SATISFY YOUR ELIMINATION PERIOD IF YOU ARE WORKING?

Yes. If you are working while you are disabled, the days you are disabled will count toward your elimination period.

WHEN WILL YOU BEGIN TO RECEIVE PAYMENTS?

You will begin to receive payments when we approve your claim, providing the elimination period has been met and you are disabled. We will send you a payment monthly for any period for which Unum is liable.

HOW MUCH WILL UNUM PAY YOU IF YOU ARE DISABLED?

We will follow this process to figure your payment:

1. Multiply your monthly earnings by 65%.
2. The maximum **monthly benefit** is $15,000.
3. Compare the answer from Item 1 with the maximum monthly benefit. The lesser of these two amounts is your **gross disability payment**.

4. Subtract from your gross disability payment any **deductible sources of income**.

The amount figured in Item 4 is your **monthly payment**.

WHAT ARE YOUR MONTHLY EARNINGS?

Base Earnings as represented in the base earnings amount column on the employees pay check

WHAT WILL WE USE FOR MONTHLY EARNINGS IF YOU BECOME DISABLED DURING A COVERED LEAVE OF ABSENCE?

If you become disabled while you are on a covered leave of absence, we will use your monthly earnings from your Employer in effect just prior to the date your absence begins.

HOW MUCH WILL UNUM PAY YOU IF YOU ARE DISABLED AND WORKING?

We will send you the monthly payment if you are disabled and your monthly **disability earnings**, if any, are less than 20% of your indexed monthly earnings, due to the same sickness or injury.

If you are disabled and your monthly disability earnings are 20% or more of your indexed monthly earnings, due to the same sickness or injury, Unum will figure your payment as follows:

During the first 12 months of payments, while working, your monthly payment will not be reduced as long as disability earnings plus the gross disability payment does not exceed 100% of indexed monthly earnings.

1. Add your monthly disability earnings to your gross disability payment.
2. Compare the answer in Item 1 to your indexed monthly earnings.

If the answer from Item 1 is less than or equal to 100% of your indexed monthly earnings, Unum will not further reduce your monthly payment.

If the answer from Item 1 is more than 100% of your indexed monthly earnings, Unum will subtract the amount over 100% from your monthly payment.

After 12 months of payments, while working, you will receive payments based on the percentage of income you are losing due to your disability.

1. Subtract your disability earnings from your indexed monthly earnings.
2. Divide the answer in Item 1 by your indexed monthly earnings. This is your percentage of lost earnings.
3. Multiply your monthly payment by the answer in Item 2.

This is the amount Unum will pay you each month.

During the first 24 months of disability payments, if your monthly disability earnings exceed 80% of your indexed monthly earnings, Unum will stop sending you payments and your claim will end.

Beyond 24 months of disability payments, if your monthly disability earnings exceed 60% of your indexed monthly earnings, Unum will stop sending you payments and your claim will end.

Unum may require you to send proof of your monthly disability earnings at least quarterly. We will adjust your payment based on your quarterly disability earnings.

As part of your proof of disability earnings, we can require that you send us appropriate financial records which we believe are necessary to substantiate your income.

After the elimination period, if you are disabled for less than 1 month, we will send you 1/30 of your payment for each day of disability.

HOW CAN WE PROTECT YOU IF YOUR DISABILITY EARNINGS FLUCTUATE?

If your disability earnings routinely fluctuate widely from month to month, Unum may average your disability earnings over the most recent 3 months to determine if your claim should continue.

If Unum averages your disability earnings, we will not terminate your claim unless:

- During the first 24 months of disability payments, the average of your disability earnings from the last 3 months exceeds 80% of indexed monthly earnings; or
- Beyond 24 months of disability payments, the average of your disability earnings from the last 3 months exceeds 60% of indexed monthly earnings.

We will not pay you for any month during which disability earnings exceed the amount allowable under the plan.

WHAT ARE DEDUCTIBLE SOURCES OF INCOME?

Unum will subtract from your gross disability payment the following deductible sources of income:

1. The amount that you receive or are entitled to receive under:
   - a workers' compensation law.
   - an occupational disease law.
   - any other **act** or **law** with similar intent.
2. The amount that you receive or are entitled to receive as disability income payments under any:
   - state compulsory benefit **act** or **law**.
   - other group insurance plan.
   - governmental retirement system as a result of your job with your Employer.
3. The amount that you receive or are entitled to receive as disability payments or the amount you receive as retirement payments under:
   - the United States Social Security Act.
   - the Canada Pension **Plan**.
   - the Quebec Pension Plan.

    - any similar plan or act.

   We will not offset for any amount received by your spouse or dependents.

4. The amount that you:
    - receive as disability payments under your Employer's **retirement plan**.
    - voluntarily elect to receive as retirement payments under your Employer's retirement plan.
    - receive as retirement payments when you reach the later of age 62 or normal retirement age, as defined in your Employer's retirement plan.

   Disability payments under a retirement plan will be those benefits which are paid due to disability and do not reduce the retirement benefit which would have been paid if the disability had not occurred.

   Retirement payments will be those benefits which are based on your Employer's contribution to the retirement plan. Disability benefits which reduce the retirement benefit under the plan will also be considered as a retirement benefit.

   Regardless of how the retirement funds from the retirement plan are distributed, Unum will consider your and your Employer's contributions to be distributed simultaneously throughout your lifetime.

   Amounts received include amounts rolled over or transferred to any eligible retirement plan. Unum will use the definition of eligible retirement plan as defined in Section 402 of the Internal Revenue Code including any future amendments which affect the definition.

5. The amount that you receive under Title 46, United States Code Section 688 (The Jones Act).
6. The amount that you receive under a **salary continuation** or **accumulated sick leave** plan.

With the exception of retirement payments, Unum will only subtract deductible sources of income which are payable as a result of the same disability.

We will not reduce your payment by your Social Security retirement income if your disability begins after age 65 and you were already receiving Social Security retirement payments.

WHAT ARE NOT DEDUCTIBLE SOURCES OF INCOME?

Unum will not subtract from your gross disability payment income you receive from, but not limited to, the following:

- 401(k) plans
- profit sharing plans
- thrift plans
- tax sheltered annuities
- stock ownership plans
- non-qualified plans of deferred compensation
- pension plans for partners

- military pension and disability income plans
- credit disability insurance
- franchise disability income plans
- a retirement plan from another Employer
- individual retirement accounts (IRA)
- individual disability income plans
- no fault motor vehicle plans
- severance payments

WHAT IF SUBTRACTING DEDUCTIBLE SOURCES OF INCOME RESULTS IN A ZERO BENEFIT? (Minimum Benefit)

The minimum monthly payment is the greater of:

- $100; or
- 10% of your gross disability payment.

Unum may apply this amount toward an outstanding overpayment.

WHAT HAPPENS WHEN YOU RECEIVE A COST OF LIVING INCREASE FROM DEDUCTIBLE SOURCES OF INCOME?

Once Unum has subtracted any deductible source of income from your gross disability payment, Unum will not further reduce your payment due to a cost of living increase from that source.

WHAT IF UNUM DETERMINES YOU MAY QUALIFY FOR DEDUCTIBLE INCOME BENEFITS?

When we determine that you may qualify for benefits under Item(s) 1, 2 and 3 in the deductible sources of income section, we will estimate your entitlement to these benefits. We can reduce your payment by the estimated amounts if such benefits:

- have not been awarded; and
- have not been denied; or
- have been denied and the denial is being appealed.

Your Long Term Disability payment will NOT be reduced by the estimated amount if you:

- apply for the disability payments under Item(s) 1, 2 and 3 in the deductible sources of income section and appeal your denial to all administrative levels Unum feels are necessary; and
- sign Unum's payment option form. This form states that you promise to pay us any overpayment caused by an award.

If your payment has been reduced by an estimated amount, your payment will be adjusted when we receive proof:

- of the amount awarded; or
- that benefits have been denied and all appeals Unum feels are necessary have been completed. In this case, a lump sum refund of the estimated amount will be made to you.

If you receive a lump sum payment from any deductible sources of income, the lump sum will be pro-rated on a monthly basis over the time period for which the sum was given. If no time period is stated, we will use a reasonable one.

HOW LONG WILL UNUM CONTINUE TO SEND YOU PAYMENTS?

Unum will send you a payment each month up to the **maximum period of payment**. Your maximum period of payment is based on your age at disability as follows:

Age at Disability	Maximum Period of Payment
Less than age 60	To age 65, but not less than 5 years
Age 60	60 months
Age 61	48 months
Age 62	42 months
Age 63	36 months
Age 64	30 months
Age 65	24 months
Age 66	21 months
Age 67	18 months
Age 68	15 months
Age 69 and over	12 months

WHEN WILL PAYMENTS STOP?

We will stop sending you payments and your claim will end on the earliest of the following:

– during the first 24 months of payments, when you are able to work in your regular occupation on a **part-time basis** but you choose not to;

– after 24 months of payments, when you are able to work in any gainful occupation on a part-time basis but you choose not to;

– the end of the maximum period of payment;

– the date you are no longer disabled under the terms of the plan;

– the date you fail to submit proof of continuing disability;

– the date your disability earnings exceed the amount allowable under the plan;

– the date you die.

WHAT DISABILITIES HAVE A LIMITED PAY PERIOD UNDER YOUR PLAN?

Disabilities due to **mental illness**, alcoholism or drug abuse have a limited pay period up to 24 months.

Unum will continue to send you payments beyond the 24 month period if you meet one or both of these conditions:

1. If you are confined to a **hospital or institution** at the end of the 24 month period, Unum will continue to send you payments during your confinement.

   If you are still disabled when you are discharged, Unum will send you payments for a recovery period of up to 90 days.

   If you become reconfined at any time during the recovery period and remain confined for at least 14 days in a row, Unum will send payments during that additional confinement and for one additional recovery period up to 90 more days.

2. In addition to Item 1, if, after the 24 month period for which you have received payments, you continue to be disabled and subsequently become confined to a hospital or institution for at least 14 days in a row, Unum will send payments during the length of the reconfinement.

Unum will not pay beyond the limited pay period as indicated above, or the maximum period of payment, whichever occurs first.

Unum will not apply the mental illness limitation to dementia if it is a result of:

- stroke;
- trauma;
- viral infection;
- Alzheimer's disease; or
- other conditions not listed which are not usually treated by a mental health provider or other qualified provider using psychotherapy, psychotropic drugs, or other similar methods of treatment.

WHAT DISABILITIES ARE NOT COVERED UNDER YOUR PLAN?

Your plan does not cover any disabilities caused by, contributed to by, or resulting from your:

- intentionally self-inflicted injuries.
- active participation in a riot.
- loss of a professional license, occupational license or certification.
- commission of a crime for which you have been convicted under state or federal law.
- pre-existing condition.

Your plan will not cover a disability due to war, declared or undeclared, or any act of war unless there is an express written approval by Unum.

Unum will not pay a benefit for any period of disability during which you are incarcerated.

WHAT IS A PRE-EXISTING CONDITION?

You have a pre-existing condition if:

- you received medical treatment, consultation, care or services including diagnostic measures, or took prescribed drugs or medicines in the 3 months just prior to your effective date of coverage; and
- the disability begins in the first 12 months after your effective date of coverage.

WHAT HAPPENS IF YOU RETURN TO WORK FULL TIME AND YOUR DISABILITY OCCURS AGAIN?

If you have a **recurrent disability**, Unum will treat your disability as part of your prior claim and you will not have to complete another elimination period if:

– you were continuously insured under the plan for the period between your prior claim and your recurrent disability; and

– your recurrent disability occurs within 6 months of the end of your prior claim.

Your recurrent disability will be subject to the same terms of this plan as your prior claim.

Any disability which occurs after 6 months from the date your prior claim ended will be treated as a new claim. The new claim will be subject to all of the policy provisions.

If you become entitled to payments under any other group long term disability plan, you will not be eligible for payments under the Unum plan.

LONG TERM DISABILITY

OTHER BENEFIT FEATURES

WHAT BENEFITS WILL BE PROVIDED TO YOUR FAMILY IF YOU DIE? (Survivor Benefit)

When Unum receives proof that you have died, we will pay your **eligible survivor** a lump sum benefit equal to 3 months of your gross disability payment if, on the date of your death:

– your disability had continued for 180 or more consecutive days; and

– you were receiving or were entitled to receive payments under the plan.

If you have no eligible survivors, payment will be made to your estate, unless there is none. In this case, no payment will be made.

However, we will first apply the survivor benefit to any overpayment which may exist on your claim.

WHAT IF YOU ARE NOT IN ACTIVE EMPLOYMENT WHEN YOUR EMPLOYER CHANGES INSURANCE CARRIERS TO UNUM? (Continuity of Coverage)

When the plan becomes effective, Unum will provide coverage for you if:

– you are not in active employment because of a sickness or injury; and

– you were covered by the prior policy.

Your coverage is subject to payment of premium.

Your payment will be limited to the amount that would have been paid by the prior carrier. Unum will reduce your payment by any amount for which your prior carrier is liable.

WHAT IF YOU HAVE A DISABILITY DUE TO A PRE-EXISTING CONDITION WHEN YOUR EMPLOYER CHANGES INSURANCE CARRIERS TO UNUM? (Continuity of Coverage)

Unum may send a payment if your disability results from a pre-existing condition if, you were:

– in active employment and insured under the plan on its effective date; and

– insured by the prior policy at the time of change.

In order to receive a payment you must satisfy the pre-existing condition provision under:

1. the Unum plan; or
2. the prior carrier’s plan, if benefits would have been paid had that policy remained in force.

If you do not satisfy Item 1 or 2 above, Unum will not make any payments.

If you satisfy Item 1, we will determine your payments according to the Unum plan provisions.

If you only satisfy Item 2, we will administer your claim according to the Unum plan provisions. However, your payment will be the lesser of:

a. the monthly benefit that would have been payable under the terms of the prior plan if it had remained inforce; or

b. the monthly payment under the Unum plan.

Your benefits will end on the earlier of the following dates:

1. the end of the maximum benefit period under the plan; or
2. the date benefits would have ended under the prior plan if it had remained in force.

OTHER SERVICES

These services are also available from us as part of your Unum Long Term Disability plan.

HOW CAN UNUM HELP YOUR EMPLOYER IDENTIFY AND PROVIDE WORKSITE MODIFICATION?

A worksite modification might be what is needed to allow you to perform the material and substantial duties of your regular occupation with your Employer. One of our designated professionals will assist you and your Employer to identify a modification we agree is likely to help you remain at work or return to work. This agreement will be in writing and must be signed by you, your Employer and Unum.

When this occurs, Unum will reimburse your Employer for the cost of the modification, up to the greater of:

– $1,000; or

– the equivalent of 2 months of your monthly benefit.

This benefit is available to you on a one time only basis.

HOW CAN UNUM'S REHABILITATION SERVICE HELP YOU RETURN TO WORK?

Unum has a vocational rehabilitation program available to assist you to return to work. This program is offered as a service, and is voluntary on your part and on Unum's part.

In addition to referrals made to the rehabilitation program by our claims paying personnel, you may request to have your claim file reviewed by one of Unum's rehabilitation professionals. As your file is reviewed, medical and vocational information will be analyzed to determine if rehabilitation services might help you return to gainful employment.

Once the initial review is completed, Unum may elect to offer you a return-to-work program. The return-to-work program may include, but is not limited to, the following services:

– coordination with your Employer to assist you to return to work;

– evaluation of adaptive equipment to allow you to return to work;

– vocational evaluation to determine how your disability may impact your employment options;

– job placement services;

– resume preparation;

– job seeking skills training; or

– retraining for a new occupation.

HOW CAN UNUM'S SOCIAL SECURITY CLAIMANT ADVOCACY PROGRAM ASSIST YOU WITH OBTAINING SOCIAL SECURITY DISABILITY BENEFITS?

In order to be eligible for assistance from Unum's Social Security claimant advocacy program, you must be receiving monthly payments from us. Unum can provide expert advice regarding your claim and assist you with your application or appeal.

Receiving Social Security benefits may enable:

– you to receive Medicare after 24 months of disability payments;
– you to protect your retirement benefits; and
– your family to be eligible for Social Security benefits.

We can assist you in obtaining Social Security disability benefits by:

– helping you find appropriate legal representation;
– obtaining medical and vocational evidence; and
– reimbursing pre-approved case management expenses.

GLOSSARY

ACTIVE EMPLOYMENT means you are working for your Employer for earnings that are paid regularly and that you are performing the material and substantial duties of your regular occupation. You must be working at least the minimum number of hours as described under Eligible Group(s) in each plan.

Your work site must be:

– your Employer's usual place of business;

– an alternative work site at the direction of your Employer, including your home; or

– a location to which your job requires you to travel.

Normal vacation is considered active employment.

Temporary and seasonal workers are excluded from coverage.

DEDUCTIBLE SOURCES OF INCOME means income from deductible sources listed in the plan which you receive or are entitled to receive while you are disabled. This income will be subtracted from your gross disability payment.

DISABILITY EARNINGS means the earnings which you receive while you are disabled and working, plus the earnings you could receive if you were working to your **maximum capacity**.

DOMESTIC PARTNER means an adult of the same or opposite sex who has an emotional, physical and financial relationship to you, similar to that of a spouse; as evidenced by the following facts:

– you and your domestic partner share financial responsibility for a joint household and intend to continue an exclusive relationship indefinitely;

– you and your domestic partner each are at least eighteen (18) years of age;

– you and your domestic partner are both mentally competent to enter into a binding contract;

– you and your domestic partner share a residence and have done so for at least 6 months;

– neither you nor your domestic partner are married to, or legally separated from anyone else;

– you and your domestic partner are not related to one another by blood closer than would bar marriage; and

– neither you nor your domestic partner is a domestic partner of anyone else.

ELIMINATION PERIOD means a period of continuous disability which must be satisfied before you are eligible to receive benefits from Unum.

EMPLOYEE means a citizen or permanent resident of the United States or Canada who is in active employment in the United States with the Employer unless an exception is applied for and approved in writing by Unum.

EMPLOYER means the Policyholder, and includes any division, subsidiary or affiliated company named in the policy.

GAINFUL OCCUPATION means an occupation that is or can be expected to provide you with an income at least equal to 60% of your indexed monthly earnings within 12 months of your return to work.

GRACE PERIOD means the period of time following the premium due date during which premium payment may be made.

GROSS DISABILITY PAYMENT means the benefit amount before Unum subtracts deductible sources of income and disability earnings.

HOSPITAL OR INSTITUTION means an accredited facility licensed to provide care and treatment for the condition causing your disability.

INDEXED MONTHLY EARNINGS means your monthly earnings adjusted on each anniversary of benefit payments by the lesser of 10% or the current annual percentage increase in the Consumer Price Index. Your indexed monthly earnings may increase or remain the same, but will never decrease.

The Consumer Price Index (CPI-W) is published by the U.S. Department of Labor. Unum reserves the right to use some other similar measurement if the Department of Labor changes or stops publishing the CPI-W.

Indexing is only used to determine your percentage of lost earnings while you are disabled and working.

INJURY means a bodily injury that is the direct result of an accident and not related to any other cause. Disability must begin while you are covered under the plan.

INSURED means any person covered under a plan.

LAW, PLAN OR ACT means the original enactments of the law, plan or act and all amendments.

LEAVE OF ABSENCE means you are temporarily absent from active employment for a period of time that has been agreed to in advance in writing by your Employer.

Your normal vacation time or any period of disability is not considered a leave of absence.

LIMITED means what you cannot or are unable to do.

MATERIAL AND SUBSTANTIAL DUTIES means duties that:

– are normally required for the performance of your regular occupation; and

– cannot be reasonably omitted or modified, except that if you are required to work on average in excess of 40 hours per week, Unum will consider you able to perform that requirement if you are working or have the capacity to work 40 hours per week.

MAXIMUM CAPACITY means, based on your restrictions and limitations:

– during the first 24 months of disability, the greatest extent of work you are able to do in your regular occupation, that is reasonably available.

– beyond 24 months of disability, the greatest extent of work you are able to do in any occupation, that is reasonably available, for which you are reasonably fitted by education, training or experience.

MAXIMUM PERIOD OF PAYMENT means the longest period of time Unum will make payments to you for any one period of disability.

MENTAL ILLNESS means a psychiatric or psychological condition regardless of cause such as schizophrenia, depression, manic depressive or bipolar illness, anxiety, personality disorders and/or adjustment disorders or other conditions. These conditions are usually treated by a mental health provider or other qualified provider using psychotherapy, psychotropic drugs, or other similar methods of treatment.

MONTHLY BENEFIT means the total benefit amount for which an employee is insured under this plan subject to the maximum benefit.

MONTHLY EARNINGS means your monthly base pay as determined by your business unit.

MONTHLY PAYMENT means your payment after any deductible sources of income have been subtracted from your gross disability payment.

PART-TIME BASIS means the ability to work and earn 20% or more of your indexed monthly earnings.

PAYABLE CLAIM means a claim for which Unum is liable under the terms of the policy.

PHYSICIAN means:

– a person performing tasks that are within the limits of his or her medical license; and

– a person who is licensed to practice medicine and prescribe and administer drugs or to perform surgery; or

– a person with a doctoral degree in Psychology (Ph.D. or Psy.D.) whose primary practice is treating patients; or

– a person who is a legally qualified medical practitioner according to the laws and regulations of the governing jurisdiction.

Unum will not recognize you, or your spouse, children, parents or siblings as a physician for a claim that you send to us.

PLAN means a line of coverage under the policy.

POLICYHOLDER means the Employer to whom the policy is issued.

PRE-EXISTING CONDITION means a condition for which you received medical treatment, consultation, care or services including diagnostic measures, or took prescribed drugs or medicines for your condition during the given period of time as stated in the plan.

RECURRENT DISABILITY means a disability which is:

– caused by a worsening in your condition; and

– due to the same cause(s) as your prior disability for which Unum made a Long Term Disability payment.

REGULAR CARE means:

– you personally visit a physician as frequently as is medically required, according to generally accepted medical standards, to effectively manage and treat your disabling condition(s); and

– you are receiving the most appropriate treatment and care which conforms with generally accepted medical standards, for your disabling condition(s) by a physician whose specialty or experience is the most appropriate for your disabling condition(s), according to generally accepted medical standards.

REGULAR OCCUPATION means the occupation you are routinely performing when your disability begins. Unum will look at your occupation as it is normally performed in the national economy, instead of how the work tasks are performed for a specific employer or at a specific location.

RETIREMENT PLAN means a defined contribution plan or defined benefit plan. These are plans which provide retirement benefits to employees and are not funded entirely by employee contributions. Retirement Plan includes but is not limited to any plan which is part of any federal, state, county, municipal or association retirement system.

SALARY CONTINUATION OR ACCUMULATED SICK LEAVE means continued payments to you by your Employer of all or part of your monthly earnings, after you become disabled as defined by the Policy. This continued payment must be part of an established plan maintained by your Employer for the benefit of all employees covered under the Policy. Salary continuation or accumulated sick leave does not include compensation paid to you by your Employer for work you actually perform after your disability begins. Such compensation is considered disability earnings, and would be taken into account in calculating your monthly payment.

SICKNESS means an illness or disease. Disability must begin while you are covered under the plan.

SURVIVOR, ELIGIBLE means your spouse or **domestic partner**, if living; otherwise your children under age 25 equally.

TOTAL COVERED PAYROLL means the total amount of monthly earnings for which employees are insured under this plan.

WAITING PERIOD means the continuous period of time (shown in each plan) that you must be in active employment in an eligible group before you are eligible for coverage under a plan.

WE, US and **OUR** means Unum Life Insurance Company of America.

YOU means an employee who is eligible for Unum coverage.

ERISA

Additional Summary Plan Description Information

If this policy provides benefits under a Plan which is subject to the Employee Retirement Income Security Act of 1974 (ERISA), the following provisions apply. These provisions, together with your certificate of coverage, constitute the summary plan description. The summary plan description and the policy constitute the Plan. Benefit determinations are controlled exclusively by the policy, your certificate of coverage and the information contained in this document.

Name of Plan:

Northrop Grumman Corporation Group Benefits Plan
Northrop Grumman ES Space Systems Consolidated Health Plan

Name and Address of Employer:

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California
90067

Plan Identification Number:

a. Employer IRS Identification #: 95-4840775
b. Plan #: Northrop Grumman Corporation Group Benefits Plan — #501
Northrop Grumman ES Space Systems Consolidated Health
Plan - - #503

Type of Plan:

Welfare Benefit Plan

Type of Administration:

The Plan is administered by the Plan Administrator. Long Term Disability Benefits are administered by the insurer and provided in accordance with the insurance policy issued to the Plan.

Benefit Plan Year:

July 1 to June 30

ERISA Plan Year:

December 31

**Plan Administrator, Name,
Address, and Telephone Number:**

Employee Welfare Benefits Committee
Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California
90067-2199
(800) 894-4194

Northrop Grumman Corporation is the Plan Administrator and named fiduciary of the Plan, with authority to delegate its duties. The Plan Administrator may designate Trustees of the Plan, in which case the Administrator will advise you separately of the name, title and address of each Trustee.

**Agent for Service of
Legal Process on the Plan:**

Northrop Grumman Corporation
c/o Corporate Secretary
1840 Century Park East
Los Angeles, California
90067-2199

Service of legal process may also be made upon the Plan Administrator, or a Trustee of the Plan, if any.

Funding and Contributions:

Long Term Disability Benefits under the plan are funded on an insured basis under policy number 587628 002, issued by Unum Life Insurance Company of America, 2211 Congress Street, Portland, Maine 04122. Contributions to the Plan are made as stated under "WHO PAYS FOR THE COVERAGE" in the Certificate of Coverage.

EMPLOYER'S RIGHT TO AMEND THE PLAN

The Employer reserves the right, in its sole and absolute discretion, to amend, modify, or terminate, in whole or in part, any or all of the provisions of this Plan (including any related documents and underlying policies), at any time and for any reason or no reason. This includes the right to amend or terminate the long term disability benefits described in the Certificate of Coverage. Any amendment, modification, or termination must be in writing and endorsed on or attached to the Plan.

EMPLOYER'S RIGHT TO REQUEST POLICY CHANGE

The Employer can request a policy change. Only an officer or registrar of Unum can approve a change. The change must be in writing and endorsed on or attached to the policy.

CANCELLING THE POLICY OR A PLAN UNDER THE POLICY

The policy or a plan under the policy can be cancelled:

– by Unum; or

– by the Policyholder.

Unum may cancel or offer to modify the policy or a plan if:

– there is less than 25% participation of those eligible employees who pay all or part of their premium for a plan; or

– there is less than 100% participation of those eligible employees for a Policyholder paid plan;

– the Policyholder does not promptly provide Unum with information that is reasonably required;

– the Policyholder fails to perform any of its obligations that relate to the policy;

– fewer than 25 employees are insured under a plan;

– the Policyholder fails to pay any premium within the 60 day grace period.

If Unum cancels the policy or a plan for reasons other than the Policyholder's failure to pay premium, a written notice will be delivered to the Policyholder at least 120 days prior to the cancellation date.

If the premium is not paid during the grace period, the policy or plan will terminate automatically at the end of the grace period. The Policyholder is liable for premium for coverage during the grace period. The Policyholder must pay Unum all premium due for the full period each plan is in force.

The Policyholder may cancel the policy or a plan by written notice delivered to Unum at least 31 days prior to the cancellation date. When both the Policyholder and Unum agree, the policy or a plan can be cancelled on an earlier date. If Unum or the Policyholder cancels the policy or a plan, coverage will end at 12:00 midnight on the last day of coverage.

If the policy or a plan is cancelled, the cancellation will not affect a payable claim.

HOW TO FILE A CLAIM

If you wish to file a claim for benefits, you should follow the claim procedures described in your insurance certificate. To complete your claim filing, Unum must receive the claim information it requests from you (or your authorized representative), your attending physician and your Employer. If you or your authorized representative has any questions about what to do, you or your authorized representative should contact Unum directly.

CLAIMS PROCEDURES

Unum will give you notice of the decision no later than 45 days after the claim is filed. This time period may be extended twice by 30 days if Unum both determines that such an extension is necessary due to matters beyond the control of the Plan and notifies you of the circumstances requiring the extension of time and the date by which Unum expects to render a decision. If such an extension is necessary due to your failure to submit the information necessary to decide the claim, the notice of extension will specifically describe the required information, and you will be afforded at least 45 days within which to provide the specified information. If you deliver the requested information within the time specified, any 30 day extension period will begin after you have provided that information. If you fail to deliver the requested information within the time specified, Unum may decide your claim without that information.

If your claim for benefits is wholly or partially denied, the notice of adverse benefit determination under the Plan will:

– state the specific reason(s) for the determination;

– reference specific Plan provision(s) on which the determination is based;

– describe additional material or information necessary to complete the claim and why such information is necessary;

– describe Plan procedures and time limits for appealing the determination, and your right to obtain information about those procedures and the right to bring a lawsuit under Section 502(a) of ERISA following an adverse determination from Unum on appeal; and

– disclose any internal rule, guidelines, protocol or similar criterion relied on in making the adverse determination (or state that such information will be provided free of charge upon request).

Notice of the determination may be provided in written or electronic form. Electronic notices will be provided in a form that complies with any applicable legal requirements.

APPEAL PROCEDURES

You have 180 days from the receipt of notice of an adverse benefit determination to file an appeal. Requests for appeals should be sent to the address specified in the claim denial. A decision on review will be made not later than 45 days following receipt of the written request for review. If Unum determines that special circumstances require an extension of time for a decision on review, the review period may be extended by an additional 45 days (90 days in total). Unum will notify you in writing if an additional 45 day extension is needed.

If an extension is necessary due to your failure to submit the information necessary to decide the appeal, the notice of extension will specifically describe the required information, and you will be afforded at least 45 days to provide the specified information. If you deliver the requested information within the time specified, the 45 day extension of the appeal period will begin after you have provided that information. If you fail to deliver the requested information within the time specified, Unum may decide your appeal without that information.

You will have the opportunity to submit written comments, documents, or other information in support of your appeal. You will have access to all relevant documents as defined by applicable U.S. Department of Labor regulations. The review of the adverse benefit determination will take into account all new information, whether or not presented or available at the initial determination. No deference will be afforded to the initial determination.

The review will be conducted by Unum and will be made by a person different from the person who made the initial determination and such person will not be the original decision maker’s subordinate. In the case of a claim denied on the grounds of a medical judgment, Unum will consult with a health professional with appropriate training and experience. The health care professional who is consulted on appeal will not be the individual who was consulted during the initial determination or a subordinate. If the advice of a medical or vocational expert was obtained by the Plan in connection with the denial of your claim, Unum will provide you with the names of each such expert, regardless of whether the advice was relied upon.

A notice that your request on appeal is denied will contain the following information:

– the specific reason(s) for the determination;

– a reference to the specific Plan provision(s) on which the determination is based;

- a statement disclosing any internal rule, guidelines, protocol or similar criterion relied on in making the adverse determination (or a statement that such information will be provided free of charge upon request);
- a statement describing your right to bring a lawsuit under Section 502(a) of ERISA if you disagree with the decision;
- the statement that you are entitled to receive upon request, and without charge, reasonable access to or copies of all documents, records or other information relevant to the determination; and
- the statement that “You or your plan may have other voluntary alternative dispute resolution options, such as mediation. One way to find out what may be available is to contact your local U.S. Department of Labor Office and your State insurance regulatory agency”.

Notice of the determination may be provided in written or electronic form. Electronic notices will be provided in a form that complies with any applicable legal requirements.

Unless there are special circumstances, this administrative appeal process must be completed before you begin any legal action regarding your claim.

YOUR RIGHTS UNDER ERISA

As a participant in this Plan you are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all Plan participants shall be entitled to:

Receive Information About Your Plan and Benefits

Examine, without charge, at the Plan Administrator’s office and at other specified locations, all documents governing the Plan, including insurance contracts, and a copy of the latest annual report (Form 5500 Series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan, including insurance contracts, and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The Plan Administrator may make a reasonable charge for the copies.

Receive a summary of the Plan’s annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate your Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Plan participants and beneficiaries. No one, including your Employer or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

Enforce Your Rights

If your claim for a benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of Plan documents or the latest annual report from the Plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to $110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator.

If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in a state or federal court if you have exhausted your administrative appeal rights . If it should happen that Plan fiduciaries misuse the Plan's money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, if, for example, it finds your claim is frivolous.

Assistance with Your Questions

If you have any questions about your Plan, you should contact the Plan Administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

OTHER RIGHTS

Unum, for itself and as claims fiduciary for the Plan, is entitled to legal and equitable relief to enforce its right to recover any benefit overpayments caused by your receipt of deductible sources of income from a third party. This right of recovery is enforceable even if the amount you receive from the third party is less than the actual loss suffered by you but will not exceed the benefits paid you under the policy. Unum and the Plan have an equitable lien over such sources of income until any benefit overpayments have been recovered in full.

DISCRETIONARY ACTS

The Plan, acting through the Plan Administrator, delegates to Unum and its affiliate Unum Group discretionary authority to make benefit determinations under the Plan. Unum and Unum Group may act directly or through their employees and agents or further delegate their authority through contracts, letters or other documentation or procedures to other affiliates, persons or entities. Benefit determinations include determining eligibility for benefits and the amount of any benefits, resolving factual disputes, and interpreting and enforcing the provisions of the Plan. All benefit determinations must be reasonable and based on the terms of the Plan and the facts and circumstances of each claim.

Once you are deemed to have exhausted your appeal rights under the Plan, you have the right to seek court review under Section 502(a) of ERISA of any benefit determinations with which you disagree. The court will determine the standard of review it will apply in evaluating those decisions.

Unum's Commitment to Privacy

Unum understands your privacy is important. We value our relationship with you and are committed to protecting the confidentiality of nonpublic personal information (NPI). This notice explains why we collect NPI, what we do with NPI and how we protect your privacy.

Collecting Information

We collect NPI about our customers to provide them with insurance products and services. This may include telephone number, address, date of birth, occupation, income and health history. We may receive NPI from your applications and forms, medical providers, other insurers, employers, insurance support organizations, and service providers.

Sharing Information

We share the types of NPI described above primarily with people who perform insurance, business, and professional services for us, such as helping us pay claims and detect fraud. We may share NPI with medical providers for insurance and treatment purposes. We may share NPI with an insurance support organization. The organization may retain the NPI and disclose it to others for whom it performs services. In certain cases, we may share NPI with group policyholders for reporting and auditing purposes. We may share NPI with parties to a proposed or final sale of insurance business or for study purposes. We may also share NPI when otherwise required or permitted by law, such as sharing with governmental or other legal authorities. *When legally necessary, we ask your permission before sharing NPI about you*. Our practices apply to our former, current and future customers.

Please be assured we do not share your health NPI to market any product or service. We also do not share any NPI to market non-financial products and services. For example, we do not sell your name to catalog companies.

The law allows us to share NPI as described above (except health information) with affiliates to market financial products and services. The law does not allow you to restrict these disclosures. We may also share with companies that help us market our insurance products and services, such as vendors that provide mailing services to us. We may share with other financial institutions to jointly market financial products and services. *When required by law, we ask your permission before we share NPI for marketing purposes.*

When other companies help us conduct business, we expect them to follow applicable privacy laws. We do not authorize them to use or share NPI except when necessary to conduct the work they are performing for us or to meet regulatory or other governmental requirements.

Unum companies, including insurers and insurance service providers, may share NPI about you with each other. The NPI might not be directly related to our transaction or experience with you. It may include financial or other personal information such as employment history. Consistent with the Fair Credit Reporting Act, we ask your permission before sharing NPI that is not directly related to our transaction or experience with you.

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Safeguarding Information

We have physical, electronic and procedural safeguards that protect the confidentiality and security of NPI. We give access only to employees who need to know the NPI to provide insurance products or services to you.

Access to Information

You may request access to certain NPI we collect to provide you with insurance products and services. You must make your request in writing and send it to the address below. The letter should include your full name, address, telephone number and policy number if we have issued a policy. If you request, we will send copies of the NPI to you. If the NPI includes health information, we may provide the health information to you through a health care provider you designate. We will also send you information related to disclosures. We may charge a reasonable fee to cover our copying costs.

This section applies to NPI we collect to provide you with coverage. It does not apply to NPI we collect in anticipation of a claim or civil or criminal proceeding.

Correction of Information

If you believe NPI we have about you is incorrect, please write to us. Your letter should include your full name, address, telephone number and policy number if we have issued a policy. Your letter should also explain why you believe the NPI is inaccurate. If we agree with you, we will correct the NPI and notify you of the correction. We will also notify any person who may have received the incorrect NPI from us in the past two years if you ask us to contact that person.

If we disagree with you, we will tell you we are not going to make the correction. We will give you the reason(s) for our refusal. We will also tell you that you may submit a statement to us. Your statement should include the NPI you believe is correct. It should also include the reason(s) why you disagree with our decision not to correct the NPI in our files. We will file your statement with the disputed NPI. We will include your statement any time we disclose the disputed NPI. We will also give the statement to any person designated by you if we may have disclosed the disputed NPI to that person in the past two years.

Coverage Decisions

If we decide not to issue coverage to you, we will provide you with the specific reason(s) for our decision. We will also tell you how to access and correct certain NPI.

Contacting Us

For additional information about Unum's commitment to privacy, please visit www.unum.com/privacy or www.coloniallife.com or write to: Privacy Officer, Unum, 2211 Congress Street, C467, Portland, Maine 04122. We reserve the right to modify this notice. We will provide you with a new notice if we make material changes to our privacy practices.

Unum is providing this notice to you on behalf of the following insuring companies: Unum Life Insurance Company of America, First Unum Life Insurance Company, Provident Life and Accident Insurance

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Company, Provident Life and Casualty Insurance Company, Colonial Life & Accident Insurance Company, The Paul Revere Life Insurance Company and The Paul Revere Variable Annuity Insurance Company.

Unum is a registered trademark and marketing brand of Unum Group and its insuring subsidiaries.

A-32442 (4-07)

Exhibit 15

LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

July 29, 2008

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended June 30, 2008 and 2007, as indicated in our report dated July 29, 2008; 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, 2008, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-03959, 333-68003, 333-67266, 333-61936, 333-100179, 333-107734, 333-121104, 333-125120 and 333-127317 on Form S-8; Registration Statement 333-77056 on Form S-3; and Registration Statement Nos. 333-40862, 333-54800 and 333-83672 on Form S-4.

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

/s/ Deloitte & Touche LLP
Los Angeles, California

Exhibit 31.1

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

I, Ronald D. Sugar, certify that:

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

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

Date: July 29, 2008

Exhibit 31.2

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

I, James F. Palmer, certify that:

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

/s/ James F. Palmer

James F. Palmer
Corporate Vice President and Chief Financial Officer

Date: July 29, 2008

Exhibit 32.1

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

In connection with the Quarterly Report of Northrop Grumman Corporation (the "company") on Form 10-Q for the period ended June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald D. Sugar, Chairman and Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: July 29, 2008

Exhibit 32.2

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

In connection with the Quarterly Report of Northrop Grumman Corporation (the "company") on Form 10-Q for the period ended June 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James F. Palmer, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: July 29, 2008