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

FORM 8-K
CURRENT REPORT

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

Date of Report (Date of earliest event reported)

June 17, 2011

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

DELAWARE	**1-16411**	**80-0640649**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification Number)

1840 Century Park East, Los Angeles, California 90067 (310) 553-6262
(Address and telephone number of principal executive offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

NORTHROP GRUMMAN CORPORATION

Item 8.01 Other Events

Northrop Grumman Corporation (the "company") is filing this Current Report on Form 8-K to recast the presentation of its consolidated financial statements that were initially filed with the Securities and Exchange Commission ("SEC") on February 9, 2011 in our Annual Report on Form 10-K for the year ended December 31, 2010 (the "Form 10-K"). The recasting reflects the reclassification of our Shipbuilding business ("Shipbuilding") as discontinued operations.

Effective March 31, 2011, we completed the spin-off to our shareholders of Huntington Ingalls Industries, Inc. ("HII"), which was formed to operate the company's Shipbuilding business. The spin-off was the culmination of our exploration of strategic alternatives for Shipbuilding. We believe that the separation of Shipbuilding is in the best interests of shareholders, customers, and employees and allows both Northrop Grumman and Shipbuilding to pursue more effectively their respective opportunities to maximize shareholder value. As a result of the spin-off, the assets, liabilities, results of operations and cash flows for the former Shipbuilding segment were classified as discontinued operations in our condensed consolidated financial statements and other disclosures included in our Form 10-Q for the quarter ended March 31, 2011, (the "First Quarter 10-Q").

The SEC requires a registrant to include or incorporate by reference in a registration statement filed with the SEC under the Securities Act of 1933 (the "Securities Act"), recasted information for previously issued financial statements whenever a component of the registrant is reflected as discontinued operations in financial statements for subsequent periods. Accordingly, we are revising and including in this Form 8-K the following portions of the Form 10-K: Business (Item 1), Selected Financial Data (Item 6), Management's Discussion and Analysis of Financial Condition and Results of Operations (Item 7) and Financial Statements and Supplementary Data (Item 8).

In order to preserve the nature and character of the disclosures set forth in the Form 10-K, the items included in this Form 8-K have been updated solely for matters relating specifically to the reclassification of Shipbuilding as discontinued operations as described above. No attempt has been made in the Form 8-K, and it should not be read, to modify or update other disclosures as presented in the Form 10-K to reflect events or occurrences after the date of the filing of the Form 10-K, February 9, 2011. Therefore, this Form 8-K should be read in conjunction with the Form 10-K filed February 9, 2011, and the company's filings made with the SEC subsequent to the filing of the Form 10-K, including the First Quarter 10-Q. References in the attached exhibits to the Form 10-K or parts thereof refer to the Form 10-K for the year ended December 31, 2010, except to the extent portions of such Form 10-K have been recast in this Form 8-K, in which case, they refer to the applicable recast portion in this Form 8-K.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

Exhibit 12(a) Computation of Ratio of Earnings to Fixed Charges*

Exhibit 23 Consent of Independent Registered Public Accounting Firm*

Exhibit 99.1 Item 1. Business*

Exhibit 99.2 Item 6. Selected Financial Data*

Exhibit 99.3 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*

Exhibit 99.4 Item 8. Financial Statements and Supplementary Data*

---

* filed herewith

NORTHROP GRUMMAN CORPORATION

SIGNATURE(S)

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 hereunto duly authorized.

NORTHROP GRUMMAN CORPORATION
(Registrant)

By: **/s/ Jennifer C. McGarey**
(Signature)
Jennifer C. McGarey
Corporate Vice President and Secretary

June 17, 2011
(Date)

NORTHROP GRUMMAN CORPORATION

EXHIBIT INDEX

Exhibit 12(a) Computation of Ratio of Earnings to Fixed Charges*

Exhibit 23 Consent of Independent Registered Public Accounting Firm*

Exhibit 99.1 Item 1. Business*

Exhibit 99.2 Item 6. Selected Financial Data*

Exhibit 99.3 Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations*

Exhibit 99.4 Item 8. Financial Statements and Supplementary Data*

---

* filed herewith

NORTHROP GRUMMAN CORPORATION

EXHIBIT 12(a)

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Year Ended December 31,				
$ in millions	**2010(1)**	2009(1)	2008(1)	2007(1)	2006(1)
Earnings:					
Earnings from continuing operations before income taxes	**$2,366**	$2,070	$1,841	$2,158	$1,895
Fixed Charges:					
Interest expense, including amortization of debt premium	**269**	269	271	312	337
Portion of rental expenses on operating leases deemed to be representative of the interest factor:	**149**	167	177	177	162
Earnings from continuing operations before income taxes, less fixed charges	**$2,784**	$2,506	$2,289	$ 2,647	$ 2,394
Fixed Charges:	**$ 418**	$ 436	$ 448	$ 489	$ 499
Ratio of earnings to fixed charges	**6.7**	5.7	5.1	5.4	4.8

(1) Certain prior-period information has been reclassified to conform to the current year's presentation. See Note 1 to our consolidated financial statements in Part II, Item 8 for more information about the spin-off of the Shipbuilding business.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 033-59815, 033-59853, 333-67266, 333-100179, 333-107734, 333-121104, 333-125120 and 333-127317 on Form S-8; Registration Statement No. 333-152596 on Form S-3; and Registration Statement Nos. 333-83672 on Form S-4 of our reports dated February 8, 2011 (June 16, 2011 as to the reclassification of the Shipbuilding segment as discontinued operations as described in Note 1), relating to the financial statements of Northrop Grumman Corporation appearing in this Current Report on Form 8-K of Northrop Grumman Corporation dated June 17, 2011.

/s/ Deloitte & Touche LLP
Los Angeles, California
June 16, 2011

EXHIBIT 99.1

Item 1. Business

HISTORY AND ORGANIZATION

History

Northrop Grumman Corporation (herein referred to as "Northrop Grumman", the "company", "we", "us", or "our") is an integrated enterprise consisting of businesses that address the global security spectrum, from undersea to outer space and into cyberspace. The companies that are part of today's Northrop Grumman have achieved historic accomplishments, from transporting Charles Lindbergh across the Atlantic to carrying astronauts to the moon's surface and back.

The company was originally formed as Northrop Corporation in California in 1939 and was reincorporated in Delaware in 1985. From 1994 through 2002, we entered a period of significant expansion through acquisitions of other businesses, most notably:

- In 1994, Northrop Corporation acquired Grumman Corporation (Grumman) and was renamed Northrop Grumman Corporation. Grumman was a premier military aircraft systems integrator and builder of the Lunar Module that first delivered men to the surface of the moon.
- In 1996, we acquired the defense and electronics businesses of Westinghouse Electric Corporation, a world leader in the development and production of sophisticated radar and other electronic systems for the nation's defense, civil aviation, and other international and domestic applications.
- In 2001, we acquired Litton Industries, a global electronics and information technology enterprise, and one of the nation's leading full-service design, engineering, construction, and life cycle supporters of major surface ships for the United States (U.S.) Navy, U.S. Coast Guard, and international navies.
- Also in 2001, we acquired Newport News Shipbuilding, the nation's sole designer, builder and refueler of nuclear-powered aircraft carriers and one of only two companies designing and building nuclear-powered submarines.
- In 2002, we acquired TRW Inc. (TRW), a leading developer of military and civil space systems and satellite payloads, as well as a leading global integrator of complex, mission-enabling systems and services.

Since 2002, other notable acquisitions include Integic Corporation (2005), an information technology provider specializing in enterprise health and business process management solutions and Essex Corporation (2007), a signal processing product and services provider to U.S. intelligence and defense customers. In addition, we divested our Advisory Services Division, TASC, Inc., in 2009. See Business Acquisitions and Business Dispositions in Part II, Item 7.

These and other transactions have shaped us into our present position as a premier provider of technologically advanced, innovative products, services and solutions in aerospace, electronics, and information and services. As prime contractor, principal subcontractor, partner, or preferred supplier, we participate in many high-priority defense and commercial technology programs in the U.S. and abroad. We conduct most of our business with the U.S. Government, principally the Department of Defense (DoD). We also conduct business with local, state, and foreign governments, and domestic and international commercial customers. For a discussion of risks associated with our DoD and foreign operations, see Risk Factors in Part I, Item 1A.

Subsequent Event – Effective March 31, 2011, we completed the spin-off to our shareholders of Huntington Ingalls Industries, Inc. (HII), which was formed to operate the business that was previously our Shipbuilding business (Shipbuilding). The spin-off was the culmination of our exploration of strategic alternatives for Shipbuilding. We believe that the separation of Shipbuilding is in the best interests of shareholders, customers, and employees and allows both Northrop Grumman and Shipbuilding to pursue more effectively their respective opportunities to maximize shareholder value. As a result of the spin-off, the assets, liabilities, results of operations and cash flows for the former Shipbuilding segment have been reclassified as discontinued operations for all periods presented. See Notes 1 and 6 to our consolidated financial statements in Part II, Item 8 for further information.

Organization

From time to time, we acquire or dispose of businesses, and realign contracts, programs or business areas among and within our operating segments that possess similar customers, expertise, and capabilities. Internal realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services. The operating results for all periods presented have been revised to reflect these changes made through December 31, 2010.

As of December 31, 2010, we are aligned into four operating segments: Aerospace Systems, Electronic Systems, Information Systems, and Technical Services. See Note 7 to our consolidated financial statements in Part II, Item 8.

AEROSPACE SYSTEMS

Aerospace Systems, headquartered in Redondo Beach, California, is a leading designer, developer, integrator and producer of manned and unmanned aircraft, spacecraft, high-energy laser systems, microelectronics and other systems and subsystems critical to maintaining the nation's security and leadership in technology. Aerospace Systems' customers, primarily government agencies, use these systems in many different mission areas including intelligence, surveillance and reconnaissance; communications; battle management; strike operations; electronic warfare; missile defense; earth observation; space science; and space exploration. The segment consists of four business areas: Strike & Surveillance Systems, Space Systems, Battle Management & Engagement Systems, and Advanced Programs & Technology.

Strike & Surveillance Systems – designs, develops, manufactures and integrates tactical and long-range strike aircraft systems, unmanned systems, and missile systems. These include the RQ-4 Global Hawk unmanned reconnaissance system, B-2 stealth bomber, F-35 Lightning II, F/A-18 Super Hornet strike fighter, Minuteman III Intercontinental Ballistic Missile (ICBM), MQ-8B Fire Scout unmanned aircraft system, Multi-Platform Radar Technology Insertion Program (MP-RTIP), and aerial targets.

Space Systems – designs, develops, manufactures, and integrates spacecraft systems, subsystems and electronic and communications payloads. Major programs include the James Webb Space Telescope (JWST), Advanced Extremely High Frequency (AEHF) payload, Space Tracking and Surveillance System (STSS) and many restricted programs.

Battle Management & Engagement Systems – designs, develops, manufactures, and integrates airborne early warning, surveillance, battlefield management, and electronic warfare systems. Key programs include the E-2 Hawkeye, Joint Surveillance Target Attack Radar System (Joint STARS), Broad Area Maritime Surveillance (BAMS) unmanned aircraft system, Long Endurance Multi Intelligence Vehicle (LEMV), the EA-6B Prowler, and its next generation platform, the EA-18G Growler.

Advanced Programs & Technology – creates advanced technologies and concepts to satisfy existing and emerging customer needs. This business area matures these technologies and concepts to create and capture new programs that other Aerospace Systems business areas can execute. Existing programs include the Navy Unmanned Combat Air System (N-UCAS), the Airborne Laser Test Bed (ALTB), and other directed energy and advanced concepts programs.

ELECTRONIC SYSTEMS

Electronic Systems, headquartered in Linthicum, Maryland, is a leader in the design, development, manufacture, and support of solutions for sensing, understanding, anticipating, and controlling the environment for our global military, civil, and commercial customers and their operations. Electronic Systems provides a variety of defense electronics and systems, airborne fire control radars, situational awareness systems, early warning systems, airspace management systems, navigation systems, communications systems, marine systems, space systems, and logistics services. The segment consists of five business areas: Intelligence, Surveillance, & Reconnaissance Systems; Land & Self Protection Systems; Naval & Marine Systems; Navigation Systems; and Targeting Systems.

Intelligence, Surveillance & Reconnaissance (ISR) Systems – delivers products and services for space satellite applications, airborne and ground based surveillance, multi-sensor processing and analysis to provide battlespace awareness, missile defense, and command and control. The division also develops advanced space-based radar and electro-optical early warning and surveillance systems for strategic, tactical, and weather operations along with systems for enhancing the discovery, sharing, and exploitation of ISR data. Key products include the Space Based Infrared System (SBIRS), Defense Meteorological Satellite Program (DMSP), Defense Support Program (DSP), ground processing, exploitation and dissemination systems, the TPS-78/703 family of ground based surveillance radars, and the Multi-role Electronically Scanned Array (MESA) radar.

Land & Self Protection Systems – delivers products, systems, and services that support ground-based, helicopter and fixed wing platforms (manned and unmanned) with sensor and protection systems. These systems perform threat detection and countermeasures that defeat infrared and radio frequency (RF) guided missile and tracking systems. The division also provides integrated electronic warfare capability, communications, and intelligence systems; unattended ground sensors; automatic test equipment; and advanced threat simulators. Key programs include the U.S. Marine Corps Ground/Air Task Oriented Radar (G/ATOR) multi-mission radar; the Large Aircraft Infrared Countermeasures (LAIRCM) system for the U.S. Air Force, U.S. Navy, and strategic international and NATO allies; the AN/ALQ-131(V) electronic countermeasures pods; the LR-100 high-performance radar warning receiver (RWR)/electronic support measures (ESM)/electronic intelligence (ELINT) receiver system; the U.S. Army's STARLite synthetic aperture radar for Unmanned Aerial Vehicles (UAVs); the U.S. Army VehicleIntercom Systems (VIC 3 and VIC-5); the U.S. Army Next Generation Automated Test System (NGATS); the U.S. Air Force Joint Threat Emitter (JTE) training range system; and the Vehicle and Dismount Exploitation Radar (VADER) system that enables UAVs to track individual persons or vehicles.

Naval & Marine Systems – delivers products and services to defense, civil, and commercial markets supporting smart navigation, shipboard radar surveillance, ship control, machinery control, integrated combat management systems for naval surface ships, high-resolution undersea sensors (for mine hunting, situational awareness, and other applications), unmanned marine vehicles, shipboard missile and encapsulated payload launch systems, propulsion and power generation systems, and nuclear reactor instrumentation and control. Key products include integrated bridge and navigation systems, voyage management system, integrated platform management systems, integrated combat Management System, AN/WSN 7 Gyro Navigator, anti-ship missile defense and surveillance radars (Cobra Judy, AN/SPQ 9B, AN/SPS 74), and propulsion equipment and missile launch systems for the *Virginia*-class submarines.

Navigation Systems – delivers products and services to defense, civil, and commercial markets supporting situational awareness, inertial navigation in all domains (air, land, sea, and space), embedded Global Positioning Systems, Identification Friend or Foe (IFF) systems, acoustic sensors, cockpit video monitors, mission computing, and integrated avionics and electronics systems. Key products include the Integrated Avionics System, the AN/TYQ-23 Aircraft Command and Control System, Fiber Optic Acoustic Sensors, and a robust portfolio of inertial sensors and navigation systems.

Targeting Systems – delivers products and services supporting airborne combat avionics (fire control radars, multi-function apertures and pods), airborne electro-optical/infrared targeting systems, and laser/electro-optical systems including hand-held, tripod-mounted, and ground or air vehicle mounted systems. Key products include fire control radars for the B-1B, F-16 (worldwide), F-22 U.S. Air Force, and F-35; the AN/APN 241 navigation/weather radar; the AN/AAQ 28(V) LITENING family of targeting pods; Distributed Aperture EO/IR systems; and the Lightweight Laser Designator Rangefinder (LLDR).

In addition to the product and service lines discussed above, the Electronic Systems segment includes the Advanced Concepts & Technologies Division (AC&TD), an organization that develops next-generation systems, technologies, and architectures to position the segment in key developing markets. AC&TD focuses on understanding customer mission needs, conceiving affordable solutions, and demonstrating the readiness and effectiveness of Electronic Systems' products, including all types of sensors, microsystems, and associated information systems. The segment uses a "Product Ownership" approach, which guides the transition of new technology from laboratory to market and implements multi-function modular open systems architecture product families that are readily reconfigurable and scalable to support new requirements, new products or component obsolescence.

INFORMATION SYSTEMS

Information Systems, headquartered in McLean, Virginia, is a leading global provider of advanced solutions for the DoD, national intelligence, federal civilian, state and local agencies, and commercial customers. Products and services are focused on the fields of command, control, communications, computers and intelligence; air and missile defense; airborne reconnaissance; intelligence processing; decision support systems; cybersecurity; information technology; and systems engineering and integration. The segment consists of three business areas: Defense Systems; Intelligence Systems; and Civil Systems.

Defense Systems – is a major end-to-end provider of net-enabled Battle Management C4ISR systems, decision superiority, and mission-enabling solutions and services in support of the national defense and security of our nation and its allies. The division is a prime developer and integrator of many of the DoD's programs-of-record, particularly for command and control and communications for the U.S. Air Force, U.S. Army, U.S. Navy, and Joint Forces. Major products and services include Enterprise Infrastructure and Applications, Mission Systems Integration, Military Communications & Networks, Battle Management C2 and Decision Support Systems, Global and Operational C2, Ground and Maritime Combat Systems, Air and Missile Defense, Combat Support Solutions and Services, Defense Logistics Automation, and Force and Critical Infrastructure Protection. Systems are installed in operational and command centers world-wide and across all DoD services and joint commands.

Intelligence Systems – is focused on the delivery of world-class systems and services to the U.S. intelligence community. Major offerings include Studies & Analysis, Systems Development, Enterprise IT, Prime Systems Integration, Products, Sustainment, and Operations and Maintenance. The division focuses on several mission areas including Airborne ISR, Geospatial Intelligence, Ground Systems, Integrated Intelligence and dynamic Cyber defense. Sustaining and growing the business in today's market mandates sharing meaningful information across agencies through development of cost effective systems that are responsive to mutual requirements. Intelligence Systems is also creating new responsive capabilities leveraging existing systems to provide solutions to customer needs through labs and integration centers.

Civil Systems – provides specialized information systems and services in support of critical government civil missions, such as homeland security, public health, cyber security, air traffic management and public safety. Primary customers are federal civilian, state and local agencies, and the U.S. Postal Service. Civil Systems develops and implements solutions that combine a deep understanding of civil government domains with core expertise in prime systems integration, enterprise applications development, and high value IT services including cyber security, identity management and advanced network communications.

TECHNICAL SERVICES

Technical Services, headquartered in Herndon, Virginia, is a provider of logistics, infrastructure, and sustainment support, while also providing a wide array of technical services including training and simulation. The segment consists of three business areas: Defense and Government Services; Training Solutions, and Integrated Logistics and Modernization.

Defense and Government Services – provides logistics, maintenance and reconstitution services, as well as civil engineering work, aerial and ground range operations in support of the military, technical support functions which include space launch services, construction, protective and emergency services, and range-sensor-instrumentation operations. Primary customers include the Department of Energy (DoE), the DoD, the Department of Homeland Security, and the U.S. intelligence community, in both domestic and international locations.

Training Solutions – provides training across the live, virtual and constructive domains to both the U.S. military and International peacekeeping forces, designs and develops future conflict training scenarios, and provides U.S. warfighters and allies with tactics, techniques and procedures to be successful on the battlefield. This business area also offers diverse training applications ranging from battle command to professional military education. Primary customers include the DoD, Department of State, and Department of Homeland Security.

Integrated Logistics and Modernization – provides life cycle product support and weapons system sustainment. This business area is focused on providing Performance Based Logistical support to the warfighter including supply chain management services, warehousing and inventory transportation, field services and mobilization, sustaining engineering, maintenance, repair and overhaul, and ongoing weapon maintenance and technical assistance. The group specializes in performing Contractor Logistics Support of both original equipment manufacturer (OEM) and third party aviation platforms involving maintenance, modification, modernization and rebuilding essential parts and assemblies. Primary customers include the DoD as well as international military and commercial customers.

Corporate

Our principal executive offices are located at 1840 Century Park East, Los Angeles, California 90067. Our telephone number is (310) 553-6262 and our home page on the Internet is www.northropgrumman.com. References to our website in this report are provided as a convenience and do not constitute, and should not be viewed as, incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report. See Properties in Part I, Item 2.

SUMMARY SEGMENT FINANCIAL DATA

For a more complete understanding of our segment financial information, see Segment Operating Results in Part II, Item 7, and Note 7 to our consolidated financial statements in Part II, Item 8.

CUSTOMERS AND REVENUE CONCENTRATION

Our primary customer is the U.S. Government. Revenue from the U.S. Government (which includes Foreign Military Sales) accounted for approximately 90 percent of total revenues in 2010, 2009, and 2008. No single product or service accounted for more than ten percent of total revenue during any period presented. See Risk Factors in Part I, Item 1A.

PATENTS

The following table summarizes the number of patents we own or have pending as of December 31, 2010:

	Owned	Pending	**Total**
U.S. patents	3,124	323	**3,447**
Foreign patents	2,336	552	**2,888**
Total	5,460	875	**6,335**

Patents developed while under contract with the U.S. Government may be subject to use by the U.S. Government. We license intellectual property to, and from, third parties. We believe our ability to conduct operations would not be materially affected by the loss of any particular intellectual property right. See Risk Factors in Part I, Item 1A.

SEASONALITY

No material portion of our business is considered to be seasonal. Our revenue recognition timing is based on several factors, including the timing of contract awards, the incurrence of contract costs, cost estimation, and unit deliveries. See Critical Accounting Policies, Estimates, and Judgments – Revenue Recognition in Part II, Item 7.

BACKLOG

At December 31, 2010, total backlog was $46.8 billion compared with $48.7 billion at the end of 2009. Approximately 55 percent of backlog at December 31, 2010, is expected to be converted into sales in 2011.

Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded indefinite delivery indefinite quantity (IDIQ) orders. 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. For backlog by segment see Backlog in Part II, Item 7.

RAW MATERIALS

While we have generally been able to obtain key raw materials required in our production processes in a timely manner, a significant delay in supply deliveries could have a material adverse effect on our consolidated financial position, results of operations, or cash flows. See Risk Factors in Part I, Item 1A and Overview – Outlook in Part II, Item 7.

GOVERNMENT REGULATION

Our businesses are affected by numerous laws and regulations relating to the award, administration and performance of U.S. Government contracts. See Risk Factors in Part I, Item 1A.

The U.S. Government generally has the ability to terminate our contracts, in whole or in part, without prior notice, for convenience or for default based on performance. If any of our U.S. Government contracts were to be terminated for convenience, we would generally be protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs, but not the anticipated profit that would have been earned had the contract been completed. In the rare circumstance where a U.S. Government contract does not have such termination protection, we attempt to mitigate the termination risk through other means. Termination resulting from our default may expose us to liability and could have a material adverse effect on our ability to compete for contracts. See Risk Factors in Part I, Item 1A.

Certain programs with the U.S. Government that are prohibited by the customer from being publicly discussed in detail are referred to as “restricted” in this Form 10-K. The consolidated financial statements and financial information in this Form 10-K reflect the operating results of restricted programs under accounting principles generally accepted in the United States of America (GAAP). See Risk Factors in Part I, Item 1A.

RESEARCH AND DEVELOPMENT

Our research and development activities primarily include independent research and development (IR&D) efforts related to government programs. IR&D expenses are included in general and administrative expenses and are generally allocated to U.S. Government contracts. IR&D expenses totaled $580 million, $588 million, and $543 million in 2010, 2009, and 2008, respectively. We charge expenses for research and development sponsored by the customer directly to the related contracts.

EMPLOYEE RELATIONS

We believe that we maintain good relations with our 79,600 employees, of which approximately 3,900 are covered by 22 collective bargaining agreements. We negotiated or re-negotiated five of our collective bargaining agreements in 2010. These negotiations had no material adverse effect on our results of operations. For risks associated with collective bargaining agreements, see Risk Factors in Part I, Item 1A.

ENVIRONMENTAL MATTERS

Our manufacturing operations are subject to and affected by federal, state, foreign, and local laws and regulations relating to the protection of the environment. We provide for the estimated cost to complete environmental remediation where we determine it is probable that we will incur such costs in the future to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where we are named a Potentially Responsible Party (PRP) by the U.S. Environmental Protection Agency (EPA) or similarly designated by other environmental agencies. These estimates may change given the inherent difficulty in estimating environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup, determination of legally responsible parties, and the status of laws, regulations, and their interpretations.

We assess the potential impact on our financial statements by estimating the possible remediation costs that we could reasonably incur on a site-by-site basis. These estimates consider our environmental engineers' professional judgment and, when necessary, we consult with outside environmental specialists. In most instances, we can only estimate a range of reasonably possible costs. We accrue our best estimate when determinable or the minimum amount when no single amount is more probable. We record accruals for environmental cleanup costs in the accounting period in which it becomes probable we have incurred a liability and the costs can be reasonably estimated. We record insurance recoveries only when we determine that collection is probable. Our environmental remediation accruals do not include any litigation costs related to environmental matters, nor do they include any amounts recorded as asset retirement obligations.

We estimate that at December 31, 2010, the range of reasonably possible future costs for environmental remediation sites is $277 million to $671 million, of which we accrued $106 million in other current liabilities and $207 million in other long-term liabilities in the consolidated statements of financial position. We record environmental accruals on an undiscounted basis. At sites involving multiple parties, we provide environmental accruals based upon our expected share of liability, taking into account the financial viability of other jointly liable parties. We expense or capitalize environmental expenditures as appropriate. Capitalized expenditures relate to long-lived improvements in currently operating facilities. We may have to incur costs in addition to those already estimated and accrued if other PRPs do not pay their allocable share of remediation costs, which could have a material effect on our consolidated financial position, results of operations, or cash flows. We have made the investments we believe necessary to comply with environmental laws.

We could be affected by future laws or regulations, including those enacted in response to climate change concerns and other actions known as "green initiatives." We established a goal of reducing our greenhouse gas emissions over a five-year period through December 31, 2014. To comply with existing green initiatives and our greenhouse gas emissions goal, we expect to incur capital and operating costs, but at this time we do not expect that such costs will have a material adverse effect on our financial position, results of operations or cash flows.

COMPETITIVE CONDITIONS

We compete with many companies in the U.S. defense industry and the information and services markets for a number of programs, both large and small. In the U.S. defense industry, Lockheed Martin Corporation, The Boeing Company, Raytheon Company, General Dynamics Corporation, L-3 Communications Corporation, SAIC, and BAE Systems Inc. are our primary competitors. Intense competition and long operating cycles are both key characteristics of our business and the defense industry. It is common in the defense industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract to another competitor, become a subcontractor for the ultimate prime contracting company. It is not unusual to compete for a contract award with a peer company and, simultaneously, perform as a supplier to or a customer of that same competitor on other contracts, or vice versa. The nature of major defense programs, conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity not frequently found in other industries.

Our success in the competitive defense industry depends upon our ability to develop and market our products and services, as well as our ability to provide the people, technologies, facilities, equipment, and financial capacity needed to deliver those products and services affordably and efficiently. Like most of our competitors, we are vertically integrated but also have a high reliance on the supply chain. We must continue to maintain dependable sources for raw materials, fabricated parts, electronic components, and major subassemblies. In this increasingly complex manufacturing and systems integration environment, effective oversight of subcontractors and suppliers is vital to our success.

Similarly, there is intense competition among many companies in the information and services markets, which are generally more labor intensive with highly competitive margin rates and contract performance periods of shorter duration. Competitors in the information and services markets include the defense industry participants mentioned above as well as many other large and small entities with specialized expertise. Our ability to successfully compete in the information and services markets depends on a number of factors. The most important factor is the ability to deploy skilled professionals, many requiring security clearances, at competitive prices across the diverse spectrum of these markets. Accordingly, we have implemented various workforce initiatives to ensure our success in attracting, developing and retaining these skilled professionals in sufficient numbers to maintain or improve our competitive position within these markets.

In both the U.S. defense industry and information and services markets, the federal government has recently indicated that it intends to increase industry competition for its future procurement of products and services. This may lead to fewer sole source awards and more emphasis on cost competitiveness and affordability than in the past. In addition, the DoD has announced several initiatives to improve efficiency, refocus priorities and enhance DoD best practices including those used to procure goods and services from defense contractors. See Overview in Part II, Item 7, and Risk Factors in Part I, Item 1A. These new initiatives, when implemented, could result in fewer new opportunities for our industry as a whole, and a reduced opportunity set would in turn intensify competition within the industry as companies compete for a more limited set of new programs.

EXECUTIVE OFFICERS

See Part III, Item 10, for information about our executive officers.

AVAILABLEINFORMATION

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

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy statement for the annual shareholders' meeting, as well as any amendments to those reports, are available free of charge through our web site as soon as reasonably practicable after we file them with the SEC. You can learn more about us by reviewing our SEC filings in the investor relations page on our web site at www.northropgrumman.com.

The SEC also maintains a web site at www.sec.gov that contains reports, proxy statements and other information about SEC registrants, including Northrop Grumman. You may also obtain these materials at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

EXHIBIT 99.2

Item 6. Selected Financial Data

The data presented in the following table is derived from the audited consolidated financial statements and other information adjusted to reflect the effects of discontinued operations. See also Business Acquisitions and Business Dispositions in Part II, Item 7.

Selected Financial Data

	Year Ended December 31				
$ in millions, except per share	**2010**	2009	2008	2007	2006
Sales and Service Revenues					
U.S. Government	**$ 25,507**	$24,955	$ 23,274	$21,687	$ 20,733
Other customers	**2,636**	2,695	2,977	2,957	2,703
Total revenues	**$28,143**	$ 27,650	$ 26,251	$ 24,644	$ 23,436
Goodwill impairment			$ (570)		
Operating income	**$ 2,827**	$ 2,274	2,076	$ 2,464	$ 2,073
Earnings from continuing operations	**1,904**	1,434	1,018	1,448	1,293
Basic earnings per share, from continuing operations	**$ 6.41**	$ 4.49	$ 3.04	$ 4.24	$ 3.74
Diluted earnings per share, from continuing operations	**6.32**	4.44	2.98	4.09	3.61
Cash dividends declared per common share	**1.84**	1.69	1.57	1.48	1.16
Year-End Financial Position					
Total assets	**$31,531**	$ 30,418	$ 30,197	$ 33,373	$ 32,271
Notes payable to banks and long-term debt	**4,724**	4,011	3,661	3,772	3,879
Total long-term obligations and preferred stock(1)	**7,947**	8,959	8,926	7,278	7,005
Financial Metrics					
Net cash provided by continuing operations	**$ 2,056**	$ 1,995	$ 2,705	$ 2,050	$ 2,270
Free cash flow(2)	**1,471**	1,454	2,132	1,478	1,172
Notes payable to banks and long-term debt as a percentage of shareholders' equity	**34.8%**	31.6%	30.7%	21.3%	23.3%
Other Information					
Company-sponsored research and development expenses	**$ 580**	$ 588	$ 543	$ 502	$ 541
Maintenance and repairs	**369**	371	314	216	239
Payroll and employee benefits	**10,861**	11,718	10,127	9,616	9,470
Number of employees at year-end	**79,600**	81,800	86,500	84,900	85,900

(1) In 2008, all of the shares of preferred stock were converted or redeemed.

(2) Free cash flow is a non-GAAP financial measure and is calculated as cash provided by continuing operations less capital expenditures and outsourcing contract and related software costs. Outsourcing contract and related software costs are similar to capital expenditures in that the contract costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition and transition/set-up. These outsourcing contract and related software costs are deferred and expensed over the contract life. See Liquidity and Capital Resources – Free Cash Flow in Part II, Item 7 for more information on this measure.

EXHIBIT 99.3

FORWARD-LOOKING STATEMENTS AND PROJECTIONS

Statements in this Form 10-K and the information we are incorporating by reference, other than statements of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expect," "intend," "plan," "project," "forecast," "believe," "estimate," "outlook," "anticipate," "trends" and similar expressions generally identify these forward-looking statements. Forward-looking statements are based upon assumptions, expectations, plans and projections that are believed valid when made. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements include, but are not limited to, those identified under Risk Factors in Part I, Item 1A and other important factors disclosed in this report and from time to time in our other filings with the SEC.

You are urged to 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. These forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Business

We provide technologically advanced, innovative products, services, and integrated solutions in aerospace, electronics, and information and services to our global customers. We participate in many high-priority defense and commercial technology programs in the United States (U.S.) and abroad as a prime contractor, principal subcontractor, partner, or preferred supplier. We conduct most of our business with the U.S. Government, principally the Department of Defense (DoD). We also conduct business with local, state, and foreign governments and domestic and international commercial customers.

Notable Events

Certain notable events or activities affecting our 2010 consolidated financial results included the following:

Significant financial events for the year ended December 31, 2010

- Recorded $229 million pre-tax charge related to the redemption of outstanding debt
- Recognized net tax benefits of $298 million in connection with Internal Revenue Service (IRS) settlement on our tax returns for years 2004 through 2006.
- Contributed voluntary pension funding amounts totaling $728 million.
- Issued $1.5 billion of unsecured senior debt obligations.
- Paid $919 million to repurchase outstanding debt securities (including $229 million in premiums paid).
- Repurchased 19.7 million common shares for $1.2 billion.
- Increased quarterly stock dividend from $0.43 per share to $0.47 per share.

Other notable events for the year ended December 31, 2010

- Announced our decision to explore strategic alternatives for our Shipbuilding business (Shipbuilding). Effective March 31, 2011, we completed the spin-off to our shareholders of HII, which was formed to operate the business that was previously Shipbuilding.
- Reached agreement with the Commonwealth of Virginia related to the Virginia IT outsourcing contract (VITA).
- Authorized new share repurchases of up to $2.0 billion.

Outlook

Beginning with the credit crisis of 2008 through the present, the United States and global economies have experienced a period of substantial economic uncertainty and turmoil, and the related financial markets have been characterized by significant volatility. While the financial markets have begun to stabilize and improve in 2009 and 2010, the U.S. and global economies continue to struggle as a result of high levels of national debt and historic levels of borrowing to support stimulus and financial support spending.

Current levels of deficit spending are at high levels and likely are unsustainable for the U.S. and several of its allies and we expect that U.S. and allied government defense spending may come under increasing pressure as governments search for ways to reduce deficits and national debts. Defense Secretary Gates recently proposed a baseline fiscal 2012 defense budget of $553 billion, which is $6 billion higher than the fiscal 2011 budget request, but $13 billion less than previously planned. Under this budget proposal, the overall defense budget will decline by $78 billion over a five year period beginning in fiscal 2012 from the previous plan, and will include program cancellations and restructurings, including reducing the number of F-35 joint strike fighters from 449 to 325 jets over that period. Northrop Grumman is one of the largest subcontractors on the F-35 program, and if approved by Congress, the reduction would impact our revenues.

Secretary Gates also outlined future opportunities for which we could compete, including a next generation nuclear capable long-range bomber, additional F/A-18 E/F aircraft to offset the reduction in the F-35 aircraft, as well as numerous opportunities to apply our unmanned airborne technologies and capabilities and our broad sensor technologies to new products and to upgrade several existing platforms.

While the real rate of growth in the top line defense budget may be slowing for the first time since 9/11, the U.S. Government's budgetary process continues to give us good visibility regarding future spending and the threat areas that it is addressing. We believe that our current contracts, and our strong backlog of previously awarded contracts align well with our customer's future needs, and this provides us with good insight regarding future cash flows from our businesses. Nonetheless, we recognize that no business is immune to the current economic situation and new policy initiatives could adversely affect future defense spending levels, which could lower our expected future revenues. Certain programs in which we participate may be subject to potential reductions due to this slower rate of growth in the U.S. defense budget and the utilization of funds to support the ongoing conflicts in Iraq and Afghanistan.

Liquidity Trends – In light of the ongoing economic situation, we have evaluated our future liquidity needs, both from a short-term and long-term perspective. We expect that cash on hand at the beginning of the year plus cash generated from operations and cash available under credit lines will be sufficient in 2011 to service debt, finance capital expansion projects, pay federal, foreign, and state income taxes, fund pension and other post-retirement benefit plans, and continue paying dividends to shareholders. We have a committed $2 billion revolving credit facility, with a maturity date of August 10, 2012, that can be accessed on a same-day basis.

We believe we can obtain additional capital to provide for long-term liquidity, if necessary, from such sources as the public or private capital markets, the sale of assets, sale and leaseback of operating assets, and leasing rather than purchasing new assets. We have an effective shelf registration statement on file with the SEC. See Liquidity and Capital Resources below for further discussions about our financing activities.

Industry Factors

We are subject to the unique characteristics of the U.S. defense industry as a monopsony, whereby demand for our products and services comes primarily from one customer, and by certain elements peculiar to our own business mix.

Recent Developments in U.S. Cost Accounting Standards (CAS) Pension Recovery Rules – On May 10, 2010, the CAS Board published a Notice of Proposed Rulemaking (NPRM) that if adopted would provide a framework to partially harmonize the CAS rules with the Pension Protection Act of 2006 (PPA) funding requirements. The NPRM would "harmonize" by mitigating the mismatch between CAS costs and PPA-amended Employee

Retirement Income Security Act (ERISA) minimum funding requirements. Until the final rule is published, and to the extent that the final rule does not completely eliminate mismatches between ERISA funding requirements and CAS pension costs, government contractors maintaining defined benefit pension plans will continue to experience a timing mismatch between required contributions and pension expenses recoverable under CAS. The final rule is expected to be issued in 2011 and to apply to contracts starting the year following the award of the first CAS covered contract after the effective date of the new rule. This would mean the rule would apply to our contracts in 2012. We anticipate that contractors will be entitled to an equitable adjustment for any additional CAS contract costs resulting from the final rule.

Economic Opportunities, Challenges, and Risks

The United States continues to face a complex and rapidly changing national security environment, while simultaneously addressing domestic economic challenges such as unemployment, federal budget deficits and the growing national debt. The U.S. Government's investment in capabilities that respond to constantly evolving threats is increasingly being balanced against the need to address domestic economic challenges. We believe that the U.S. Government will continue to place a high priority on defense spending and national security, as well as economic challenges, and will continue to invest in sophisticated systems providing long-range surveillance and intelligence, battle management, precision strike, and strategic agility.

The U.S. Government faces the additional challenge of recapitalizing equipment and rebuilding readiness while also pursuing modernization and reducing overhead and inefficiency. The DoD has announced several initiatives to improve efficiency, refocus priorities and enhance DoD business practices including those used to procure goods and services from defense contractors.

The DoD initiatives are organized into five major areas: affordability and cost growth; productivity and innovation; competition; services acquisition; and processes and bureaucracy. Initial plans resulting from these initiatives were announced in early 2010 and the defense department expects that these initiatives will generate $100 billion in savings. On January 6, 2011, Secretary Gates provided initial details on fiscal year 2012 defense budget and programmatic plans and elaborated on the allocation of the $100 billion in expected savings from efficiency initiatives. The Secretary described plans to allocate $28 billion for increased operating costs and $70 billion for investment in high priority capabilities. In addition to the efficiency savings, the DoD plans to reduce defense spending from its prior plans by $78 billion over the next five fiscal years.

At the date of this Form 10-K, the fiscal year 2012 defense budget has not been submitted by the President and Congress had not yet passed a baseline fiscal year 2011 defense budget or any of the appropriations funding bills relating to our customer base. As a result, the U.S. Government is currently operating under a Continuing Resolution (CR) that funds programs and services at fiscal year 2010 levels. The CR is set to expire on March 4, 2011, after which Congress will either pass a new appropriations bill or extend a CR. The latter case would likely fund programs at fiscal year 2010 levels and would affect the profitability of some of our programs and potentially delay new awards. We anticipate continued spirited debate over defense spending in 2011 as part of a larger dialog around the federal deficit and potential cuts in government spending. Budget decisions made in this environment could have long-term consequences for our company and the entire defense industry.

Although reductions to certain programs in which we participate or for which we expect to compete are always possible, we believe that spending on recapitalization, modernization and maintenance of defense and homeland security assets will continue to be a national priority. Future defense spending is expected to include the development and procurement of new manned and unmanned military platforms and systems along with advanced electronics and software to enhance the capabilities of individual systems and provide for the real-time integration of individual surveillance, information management, strike, and battle management platforms. Given the current era of irregular warfare, we expect an increase in investment in persistent awareness with intelligence, surveillance and reconnaissance (ISR) systems, cyber warfare, and expansion of information available for the warfighter to make timely decisions. Other significant new competitive opportunities include long range strike, directed energy applications, missile defense, satellite communications systems, restricted programs, cybersecurity, technical services and information technology contracts, and numerous international and homeland security programs.

Prime contracts with various agencies of the U.S. Government and subcontracts with other prime contractors are subject to numerous procurement and other regulations, including the False Claims Act and the International Traffic in Arms Regulations promulgated under the Arms Export Control Act. Noncompliance found by any one agency could result in fines, penalties, debarment, or suspension from receiving contracts with all U.S. Government agencies. We could experience material adverse effects on our business operations if we or a portion of our business were suspended or debarred.

We could be affected by future laws or regulations, including those enacted in response to climate change concerns and other actions known as "green initiatives." We recently established a goal of reducing our greenhouse gas emissions over a five-year period through December 31, 2014. To comply with existing green initiatives and our greenhouse gas emissions goal, we expect to incur capital and operating costs, but at this time we do not expect that such costs will have a material adverse effect upon our financial position, results of operations or cash flows.

See Risk Factors located in Part I, Item 1A for a more complete description of risks faced by us and the defense industry.

BUSINESS ACQUISITIONS

2009 – We acquired Sonoma Photonics, Inc., as well as assets from Swift Engineering's Killer Bee Unmanned Air Systems product line in April 2009 for an aggregate amount of approximately $33 million. The operating results from the date of acquisition are reported in the Aerospace Systems segment from the date of acquisition.

2008 – We acquired 3001 International, Inc. (3001 Inc.) in October 2008 for approximately $92 million in cash. 3001 Inc. provides geospatial data production and analysis, including airborne imaging, surveying, mapping and geographic information systems for U.S. and international government intelligence, defense and civilian customers. The operating results of 3001 Inc. are reported in the Information Systems segment from the date of acquisition.

BUSINESS DISPOSITIONS

2009 – We sold our Advisory Services Division (ASD) in December 2009, for $1.65 billion in cash to an investor group led by General Atlantic, LLC and affiliates of Kohlberg Kravis Roberts & Co. L.P., and recognized a gain of $15 million, net of taxes. ASD was a business unit comprised of the assets and liabilities of TASC, Inc., its wholly owned subsidiary TASC Services Corporation, and certain contracts carved out from other businesses also in Information Systems that provide systems engineering technical assistance (SETA) and other analysis and advisory services. Sales for ASD in the years ended December 31, 2009, and 2008, were approximately $1.5 billion, and $1.6 billion, respectively. The assets, liabilities and operating results of this business unit are reported as discontinued operations in the consolidated financial statements for all periods presented.

2008 – We sold our Electro-Optical Systems (EOS) business in April 2008 for $175 million in cash to L-3 Communications Corporation and recognized a gain of $19 million, net of taxes. EOS, formerly a part of the Electronic Systems segment, produces night vision and applied optics products. Sales for this business through April 2008 were approximately $53 million. The assets, liabilities and operating results of this business are reported as discontinued operations in the consolidated financial statements for all periods presented.

Subsequent Event – As previously discussed in Part I, Item 1, we completed the spin-off to our shareholders of HII effective March 31, 2011. HII was formed to operate the business that was previously our Shipbuilding segment prior to the spin-off. We made a pro rata distribution to our shareholders of one share of HII common stock for every six shares of our common stock held on the record date of March 30, 2011, or 48.8 million shares of HII common stock. There was no gain or loss recognized by us as a result of the spin-off transaction. In connection with the spin-off, HII issued senior notes and entered into a credit facility with third-party lenders, and HII used a portion of the proceeds of the debt and credit facility to fund a $1,429 million cash contribution to us.

Prior to the completion of the spin-off, we and HII entered into a Separation and Distribution Agreement dated March 29, 2011 and several other agreements that will govern the post-separation relationship. These agreements generally provide that each party will be responsible for its respective assets, liabilities and obligations following the spin-off, including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe our future commitments to provide HII with certain transition services for up to one year and the costs incurred for such services that will be reimbursed by HII.

In connection with the spin-off, we incurred $28 million and $4 million of non-deductible transaction costs for the years ended December 31, 2010 and 2009, respectively, which have been included in discontinued operations.

Discontinued Operations – Earnings for the businesses classified within discontinued operations (primarily the Shipbuilding business and ASD) were as follows:

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Sales and service revenues	**$6,711**	$7,740	$ 7,761
Earnings (loss) from discontinued operations	**229**	345	(2,216)
Income tax expense	**(95)**	(111)	(90)
Earnings (loss), net of tax	**$ 134**	$ 234	$ (2,306)
Gain on divestitures	**10**	446	66
Income tax benefit (expense)	**5**	(428)	(40)
Gain from discontinued operations, net of tax	**$ 15**	$ 18	$ 26
Earnings (loss) from discontinued operations, net of tax	**$ 149**	$ 252	$ (2,280)

The loss in 2008 included a Shipbuilding non-cash goodwill impairment charge of $2,490 million due to adverse equity market conditions that caused a decrease in market multiples and our stock price. Tax rates on discontinued operations vary from the company's effective tax rate generally due to the non-deductibility of goodwill for tax purposes and the effects, if any, of capital loss carryforwards.

The major classes of assets and liabilities included in discontinued operations for the Shipbuilding business are presented in the following table:

$ in millions	**December 31, 2010**	December 31, 2009
Assets		
Current assets	**$ 1,315**	$ 1,162
Property, plant, and equipment, net	**1,997**	1,977
Goodwill	**1,141**	1,141
Other assets	**759**	755
Total assets of discontinued operations	**$ 5,212**	$ 5,035
Liabilities		
Trade accounts payable	**$ 274**	$ 312
Other current liabilities	**955**	868
Current liabilities	**1,229**	1,180
Long-term liabilities	**1,563**	1,642
Total liabilities of discontinued operations	**$ 2,792**	$ 2,822

CONTRACTS

We generate the majority of our business from long-term government contracts for development, production, and support activities. Government contracts typically include the following cost elements: direct material, labor and subcontracting costs, and certain indirect costs including allowable general and administrative costs. Unless otherwise specified in a contract, costs billed to contracts with the U.S. Government are determined under the requirements of the Federal Acquisition Regulation (FAR) and CAS regulations as allowable and allocable costs. Examples of costs incurred by us and not billed to the U.S. Government in accordance with the requirements of the FAR and CAS regulations include, but are not limited to, certain legal costs, lobbying costs, charitable donations, interest expense and advertising costs.

Our long-term contracts typically fall into one of two broad categories:

Flexibly Priced Contracts – Includes both cost-type and fixed-price incentive contracts. Cost-type contracts provide for reimbursement of the contractor’s allowable costs incurred plus a fee that represents profit. Cost-type contracts generally require that the contractor use its best efforts to accomplish the scope of the work within some specified time and some stated dollar limitation. Fixed-price incentive contracts also provide for reimbursement of the contractor’s allowable costs, but are subject to a cost-share limit which affects profitability. Fixed-price incentive contracts effectively become firm fixed-price contracts once the cost-share limit is reached.

Firm Fixed-Price Contracts – A firm fixed-price contract is a contract in which the specified scope of work is agreed to for a price that is a pre-determined, negotiated amount and not generally subject to adjustment regardless of costs incurred by the contractor. Time-and-materials contracts are considered firm fixed-price contracts as they specify a fixed hourly rate for each labor hour charged.

The following table summarizes 2010 revenue recognized by contract type and customer:

($ in millions)	U.S. Government	Other Customers	Total	Percent of Total
Flexibly priced	$ 16,451	$ 198	$16,649	59%
Firm fixed-price	9,056	2,438	11,494	41%
Total	$ 25,507	$ 2,636	$ 28,143	100%

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

Award Fees – Certain contracts contain provisions consisting of award fees based on performance criteria such as cost, schedule, quality, and technical performance. Award fees are determined and earned based on an evaluation by the customer of the company's performance against such negotiated criteria. Fees that can be reasonably assured and reasonably estimated are recorded over the performance period of the contract. Award fee contracts are used in certain of our operating segments. Examples of significant long-term contracts with substantial negotiated award fee amounts are the Broad Area Maritime Surveillance (BAMS) Unmanned Aircraft System and the majority of satellite contracts.

Compliance and Monitoring – We monitor our policies and procedures with respect to our contracts on a regular basis to ensure consistent application under similar terms and conditions as well as compliance with all applicable government regulations. In addition, costs incurred and allocated to contracts with the U.S. Government are routinely audited by the Defense Contract Audit Agency.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

Revenue Recognition

Overview – We derive the majority of our business from long-term contracts for the production of goods and services provided to the federal government, which are accounted for in conformity with accounting principles generally accepted in the United States of America (GAAP) for construction-type and production-type contracts and federal government contractors. We classify contract revenues as product sales or service revenues depending on the predominant attributes of the relevant underlying contract. We also enter into contracts that are not associated with the federal government, such as contracts to provide certain services to non-federal government customers. We account for those contracts in accordance with the relevant GAAP revenue recognition principles.

We consider the nature of these contracts and the types of products and services provided when determining the proper accounting method for a particular contract.

Percentage-of-Completion Accounting – We generally recognize revenues from our long-term contracts under the cost-to-cost or the units-of-delivery measures of the percentage-of-completion method of accounting. The percentage-of-completion method recognizes income as work on a contract progresses. For most contracts, sales are calculated based on the percentage of total costs incurred in relation to total estimated costs at completion of the contract. The units-of-delivery measure is a modification of the percentage-of-completion method, which recognizes revenues as deliveries are made to the customer generally using unit sales values in accordance with the contract terms. We estimate profit as the difference between total estimated revenue and total estimated cost of a contract and recognize that profit over the life of the contract based on deliveries.

The use of the percentage-of-completion method depends on our ability to make reasonably dependable cost estimates for the design, manufacture, and delivery of our products and services. Such costs are typically incurred over a period of several years, and estimation of these costs requires the use of judgment. We record sales under cost-type contracts as costs are incurred.

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

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

Certain Service Contracts – We generally recognize revenue under contracts to provide services to non-federal government customers when services are performed. Service contracts include operations and maintenance contracts, and outsourcing-type arrangements, primarily in Technical Services and Information Systems. We generally recognize revenue under such contracts on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs incurred under these service contracts are expensed as incurred, except that direct and incremental set-up costs are capitalized and amortized over the life of the agreement. Operating profit related to such service contracts may fluctuate from period to period, particularly in the earlier phases of the contract.

Contracts that include more than one type of product or service are accounted for under the relevant GAAP guidance for revenue arrangements with multiple-elements. Accordingly, for applicable arrangements, revenue recognition includes the proper identification of separate units of accounting and the allocation of revenue across all elements based on relative fair values.

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

We record a provision for the entire loss on the contract in the period the loss is determined when estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned. We offset loss provisions first against costs that are included in unbilled accounts receivable or inventoried assets, with any remaining amount reflected in liabilities.

Purchase Accounting and Goodwill

Overview – We allocate the purchase price of an acquired business to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective fair market values, with the excess recorded as goodwill. Such fair market value assessments require judgments and estimates that can be affected by contract performance and other factors over time, which may cause final amounts to differ materially from original estimates. Adjustments to the fair value of purchased assets and liabilities after the measurement period are recognized in net earnings.

Acquisition Accruals – We establish certain accruals in connection with indemnities and other contingencies from our acquisitions and divestitures. We have recorded these accruals and subsequent adjustments during the purchase price allocation period for acquisitions and as events occur for divestitures. The accruals were determined based upon the terms of the purchase or sales agreements and, in most cases, involve a significant degree of judgment. We recorded these accruals in accordance with our interpretation of the terms of the purchase or sale agreements, known facts, and an estimation of probable future events based on our experience.

Tests for Impairment – We perform impairment tests for goodwill as of November 30th of each year, or when evidence of potential impairment exists. We record a charge to operations when we determine that an impairment has occurred. In order to test for potential impairment, we use a discounted cash flow analysis, corroborated by comparative market multiples where appropriate.

The principal factors used in the discounted cash flow analysis requiring judgment are the projected results of operations, weighted average cost of capital (WACC), and terminal value assumptions. The WACC takes into account the relative weights of each component of our consolidated capital structure (equity and debt) and represents the expected cost of new capital adjusted as appropriate to consider lower risk profiles associated with longer-term contracts and barriers to market entry. The terminal value assumptions are applied to the final year of the discounted cash flow model.

The results of our annual goodwill impairment test as of November 30, 2010, indicated that the estimated fair value of all reporting units were substantially in excess of their carrying values.

Due to the many variables inherent in the estimation of a business's fair value and the relative size of our recorded goodwill, differences in assumptions may have a material effect on the results of our impairment analysis.

Litigation, Commitments, and Contingencies

Overview – We are subject to a range of claims, lawsuits, environmental and income tax matters, and administrative proceedings that arise in the ordinary course of business. Estimating liabilities and costs associated with these matters requires judgment and assessment based upon professional knowledge and experience of management and our internal and external legal counsel. In accordance with our practices relating to accounting for contingencies, we record amounts as charges to earnings after taking into consideration the facts and circumstances of each matter known to us, including any settlement offers, and determine that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any such exposure to us may vary from earlier estimates as further facts and circumstances become known. When a range of costs is possible and no amount within that range is a better estimate than another, we record the minimum amount of the range.

U.S. Government Claims – From time to time, our customers advise us of ordinary course claims and penalties concerning certain potential disallowed costs. When such findings are presented, we engage U.S. Government representatives in discussions to enable us to evaluate the merits of these claims as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect our expected exposure to the matters raised by the U.S. Government representatives and such provisions are reviewed on a quarterly basis for sufficiency based on the most recent information available.

Environmental Accruals – We are subject to the environmental laws and regulations of the jurisdictions in which we conduct operations. We record a liability for the costs of expected environmental remediation obligations when we determine that it is probable we will incur such costs, and the amount of the liability can be reasonably estimated. When a range of costs is possible and no amount within that range is a better estimate than another, we record the minimum amount of the range.

Factors which could result in changes to the assessment of probability, range of estimated costs, and environmental accruals include: modification of planned remedial actions, increase or decrease in the estimated time required to remediate, discovery of more extensive contamination than anticipated, results of efforts to involve other legally responsible parties, financial insolvency of other responsible parties, changes in laws and regulations or contractual obligations affecting remediation requirements, and improvements in remediation technology.

Litigation Accruals – Litigation accruals are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any exposure to us may vary from earlier estimates as further facts and circumstances become known to us.

Uncertain Tax Positions – Tax positions meeting the more-likely-than-not recognition threshold may be recognized or continue to be recognized in the financial statements. The timing and amount of accrued interest is determined by the applicable tax law associated with an underpayment of income taxes. If a tax position does not meet the minimum statutory threshold to avoid payment of penalties, we recognize an expense for the amount of the penalty in the period the tax position is claimed in our tax return. We recognize interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are recognized as a component of income tax expense. See Note 10 to our consolidated financial statements in Part II, Item 8. Under existing GAAP, prior to January 1, 2009, changes in accruals associated with uncertainties arising from the resolution of pre-acquisition contingencies of acquired businesses were charged or credited to goodwill; effective January 1, 2009, such changes will be recorded to income tax expense. Adjustments to other tax accruals are generally recorded in earnings in the period they are determined.

Retirement Benefits

Overview – We annually evaluate assumptions used in determining projected benefit obligations and the fair values of plan assets for our pension plans and other post-retirement benefits plans in consultation with our outside actuaries. In the event that we determine that plan amendments or changes in the assumptions are warranted, future pension and post-retirement benefit expenses could increase or decrease.

Assumptions – The principal assumptions that have a significant effect on our consolidated financial position and results of operations are the discount rate, the expected long-term rate of return on plan assets, the health care cost trend rate and the estimated fair market value of plan assets. For certain plan assets where the fair market value is not readily determinable, such as real estate, private equity, and hedge funds, estimates of fair value are determined using the best information available.

Discount Rate – The discount rate represents the interest rate that is used to determine the present value of future cash flows currently expected to be required to settle the pension and post-retirement benefit obligations. The discount rate is generally based on the yield of high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined using the results of bond yield curve models based on a portfolio of high quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan. Taking into consideration the factors noted above, our weighted-average pension composite discount rate was 5.75 percent at December 31, 2010, and 6.03 percent at December 31, 2009. Holding all other assumptions constant, and since net actuarial gains and losses were in excess of the 10 percent accounting corridor in 2010, an increase or decrease of 25 basis points in the discount rate assumption for 2010 would have decreased or increased pension and post-retirement benefit expense for 2010 by approximately $66 million, of which $2 million relates to post-retirement benefits, and decreased or increased the amount of the benefit obligation recorded at December 31, 2010, by approximately $725 million, of which $50 million relates to post-retirement benefits. The effects of hypothetical changes in the discount rate for a single year may not be representative and may be asymmetrical or nonlinear for future years because of the application of the accounting corridor. The accounting corridor is a defined range within which amortization of net gains and losses is not required. Due to adverse capital market conditions in 2008 our pension plan assets experienced a negative return of approximately 16 percent in 2008. As a result, substantially all of our plans experienced net actuarial losses outside the 10 percent accounting corridor at the end of 2008, thus requiring accumulated gains and losses to be amortized to expense. As a result of this condition, sensitivity of net periodic pension costs to changes in the discount rate were much higher in 2009 and 2010 than was the case in 2008 and prior. This condition is expected to continue into the near future.

Expected Long-Term Rate of Return – The expected long-term rate of return on plan assets represents the average rate of earnings expected on the funds invested in a specified target asset allocation to provide for anticipated future benefit payment obligations. For 2010 and 2009, we assumed an expected long-term rate of return on plan assets of 8.5 percent. An increase or decrease of 25 basis points in the expected long-term rate of return assumption for 2010, holding all other assumptions constant, would increase or decrease our pension and post-retirement benefit expense for 2010 by approximately $47 million, of which $2 million relates to post-retirement benefits.

Health Care Cost Trend Rates – The health care cost trend rates represent the annual rates of change in the cost of health care benefits based on external estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the plan participants. Using a combination of market expectations and economic projections including the effect of health care reform, we selected an expected initial health care cost trend rate of 8 percent for 2011 and an ultimate health care cost trend rate of 5 percent reached in 2017. In 2009, we assumed an expected initial health care cost trend rate of 7 percent for 2010 and an ultimate health care cost trend rate of 5 percent reached in 2014. Although our actual cost experience is much lower at this time, market conditions and the potential effects of health care reform are expected to increase medical cost trends in the next one to three years thus our past experience may not reflect future conditions.

Differences in the initial through the ultimate health care cost trend rates within the range indicated below would have had the following impact on 2010 post-retirement benefit results:

$ in millions	1-Percentage Point Increase	1-Percentage Point Decrease
Increase (Decrease) From Change In Health Care Cost Trend Rates To		
Post-retirement benefit expense	$ 5	$ (6)
Post-retirement benefit liability	57	(68)

CONSOLIDATED OPERATING RESULTS

Selected financial highlights are presented in the table below.

	Year Ended December 31		
$ in millions, except per share	**2010**	2009	2008
Sales and service revenues	**$ 28,143**	$ 27,650	$26,251
Cost of sales and service revenues	**(22,849)**	(22,805)	(21,028)
General and administrative expenses	**(2,467)**	(2,571)	(2,577)
Goodwill impairment			(570)
Operating income	**2,827**	2,274	2,076
Interest expense	**(269)**	(269)	(271)
Charge on debt redemption	**(229)**		
Other, net	**37**	65	36
Federal and foreign income taxes	**(462)**	(636)	(823)
Earnings (loss) from discontinued operations, net of tax	**149**	252	(2,280)
Diluted earnings per share from continuing operations	**6.32**	4.44	2.98
Cash provided by continuing operations	**2,056**	1,995	2,705

Sales and Service Revenues

Sales and service revenues consist of the following:

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Product sales	**$16,091**	$ 16,004	$ 14,549
Service revenues	**12,052**	11,646	11,702
Sales and service revenues	**$28,143**	$27,650	$26,251

2010 – Sales and service revenues increased $493 million, or 2 percent, over 2009. The increase is due to $87 million higher product sales and $406 million higher service revenues. The 1 percent increase in product sales is primarily due to sales growth in Aerospace Systems partially offset by lower product sales in Electronic Systems and Information Systems. The 3 percent increase in service revenues is primarily due to sales growth in Technical Services.

2009 – Sales and service revenues increased $1.4 billion, or 5 percent, over 2008. The increase is primarily due to $1.4 billion higher product sales. The 10 percent increase in product sales is primarily due to sales growth in Aerospace Systems and Electronic Systems.

See the Segment Operating Results section below for further information.

Cost of Sales and Service Revenues and General and Administrative Expenses

Cost of sales and service revenues and general and administrative expenses are comprised of the following:

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Cost of sales and service revenues			
Cost of product sales	**$11,812**	$ 12,330	$10,965
% of product sales	***73.4%***	*77.0%*	*75.4%*
Cost of service revenues	**11,037**	10,475	10,063
% of service revenues	***91.6%***	*89.9%*	*86.0%*
General and administrative expenses	**2,467**	2,571	2,577
% of total sales and service revenues	***8.8%***	*9.3%*	*9.8%*
Goodwill impairment			570
Cost of sales and service revenues and general and administrative expenses	**$25,316**	$25,376	$ 24,175

Cost of Product Sales and Service Revenues

2010 – Cost of product sales in 2010 decreased $518 million, or 4 percent, as compared with 2009. The decrease in cost of product sales and cost of product sales as a percentage of product sales is primarily due to lower GAAP pension expense and performance improvements in Aerospace Systems and Electronic Systems.

Cost of service revenues in 2010 increased $562 million, or 5 percent, over 2009 primarily due to the higher sales volume in Technical Services described above. The increase in cost of service revenues as a percentage of service revenues is primarily due to program mix changes at Information Systems.

2009 – Cost of product sales in 2009 increased $1.4 billion, or 12 percent, over 2008. The increase in cost of product sales and cost of product sales as a percentage of product sales is primarily due to the higher sales volume described above and higher GAAP pension expense.

Cost of service revenues in 2009 increased $412 million, or 4 percent, over 2008. The increase in cost of service revenues and cost of service revenues as a percentage of service revenues is primarily due to higher GAAP pension expense.

See the Segment Operating Results section below for further information.

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. For most components of the company, these costs are allocated to contracts in progress on a systematic basis and contract performance factors include this cost component as an element of cost. General and administrative expenses primarily relate to segment operations. General and administrative expenses for 2010 decreased $104 million from the prior year primarily due to the 2009 disposition of ASD at our Information Systems segment. General and administrative expenses as a percentage of total sales and service revenues decreased from 9.3 percent in 2009 to 8.8 percent in 2010, primarily due to cost reductions realized from the 2009 streamlining of our organizational structure which reduced the number of operating segments. General and administrative expenses as a percentage of total sales and service revenues decreased from 9.8 percent in 2008 to 9.3 percent in 2009, primarily due to lower corporate overhead costs and a $64 million gain from a legal settlement in 2009, net of legal provisions and related expenses.

Goodwill Impairment

In 2008, we recorded a non-cash charge totaling $570 million at Aerospace Systems as a result of adverse equity market conditions that caused a decrease in market multiples and our stock price.

Operating Income

We consider operating income to be an important measure for evaluating our operating performance and, as is typical in the industry, we define operating income as revenues less the related cost of producing the revenues and general and administrative expenses. We also further evaluate operating income for each of the business segments in which we operate.

We internally manage our operations by reference to "segment operating income." Segment operating income is defined as operating income before unallocated expenses and net pension adjustment, neither of which affect the operating results of segments, and the reversal of royalty income, which is classified as "other, net" for financial reporting purposes. Segment operating income is one of the key metrics we use to evaluate operating performance. Segment operating income is not, however, a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner.

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

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Segment operating income	**$3,010**	$2,635	$2,015
Unallocated corporate expenses	**(182)**	(100)	(141)
Net pension adjustment	**10**	(237)	272
Royalty income adjustment	**(11)**	(24)	(70)
Total operating income	**$2,827**	$ 2,274	$2,076

Segment Operating Income

Segment operating income in 2010 increased $375 million, or 14 percent, as compared with 2009. Total segment operating income was 10.7 percent and 9.5 percent of total sales and service revenues in 2010 and 2009, respectively. The increase in 2010 segment operating income is primarily due to the 2 percent increase in sales volume and performance improvements across all operating segments. Segment operating income in 2009 was $2.6 billion as compared with segment operating income of $2 billion in 2008. The lower operating income in 2008 was primarily due to a goodwill impairment charge of $570 million at Aerospace Systems. See discussion of Segment Operating Results below for further information.

Unallocated Corporate Expenses

Unallocated corporate expenses generally include the portion of corporate expenses not considered allowable or allocable under applicable CAS and FAR rules, and therefore not allocated to the segments, such as management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses. Unallocated corporate expenses for 2010 increased $82 million, or 82 percent, as compared with 2009, primarily due to inclusion of a $64 million net gain from a legal settlement in 2009, as well as an increase in environmental, health and welfare, and stock compensation expenses in 2010. Unallocated corporate expenses for 2009 decreased $41 million, or 29 percent, as compared with 2008, primarily due to a $64 million net gain from a legal settlement in 2009, partially offset by higher costs related to environmental remediation and post-retirement employee benefits.

Net Pension Adjustment

Net pension adjustment reflects the difference between pension expenses determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with CAS. The pension adjustment in 2010 decreased by $247 million as compared with 2009 primarily due to lower GAAP pension expense as a result of favorable returns on pension plan assets in 2009. The net pension adjustment in 2009 was an expense of $237 million, as compared with income of $272 million in 2008. The net pension expense in 2009 was primarily the result of negative returns on plan assets in 2008.

Royalty Income Adjustment
Royalty income is included in segment operating income and reclassified to other income for financial reporting purposes. See Other, net below.

Interest Expense
2010 – Interest expense in 2010 was comparable to 2009.

2009 – Interest expense in 2009 decreased $2 million, or 1 percent, as compared with 2008. The decrease is primarily due to higher capitalized interest and lower interest rates.

Charge on Debt Redemption
2010 – In November 2010, we repurchased outstanding debt held by our subsidiary, Northrop Grumman Systems Corporation, and recorded a pre-tax charge of $229 million primarily related to premiums paid on the debt tendered. See Liquidity and Capital Resources below and Note 13 to our consolidated financial statements in Part II, Item 8.

Other, net
2010 – Other, net for 2010 decreased $28 million as compared with 2009, primarily due to lower royalty income and lower returns on investments in marketable securities used as a funding source for non-qualified employee benefits.

2009 – Other, net for 2009 increased $29 million as compared with 2008, primarily due to positive mark-to-market adjustments on investments in marketable securities used as funding for non-qualified employee benefits and a gain from the recovery of a loan to an affiliate. For 2008, Other, net included $60 million in royalty income from patent infringement settlements at Electronic Systems.

Federal and Foreign Income Taxes
2010 – Our effective tax rate on earnings from continuing operations for 2010 was 19.5 percent compared with 30.7 percent in 2009. In 2010, we recognized net tax benefits of $298 million to reflect the final approval from the IRS and the U.S. Congressional Joint Committee on Taxation (Joint Committee) of the IRS' examination of our tax returns for the years 2004 through 2006. In 2009, we recognized net tax benefits of $75 million primarily as a result of a final settlement with the IRS Office of Appeals and the Joint Committee related to our tax returns for years ended 2001 through 2003.

2009 – Our effective tax rate on earnings from continuing operations for 2009 was 30.7 percent compared with 34.1 percent in 2008 (excluding the non-cash, non-deductible goodwill impairment charge of $570 million at Aerospace Systems). The 2009 tax rate reflects net tax benefits of approximately $75 million related to a final settlement with the IRS as discussed above.

Earnings from Discontinued Operations, Net of Tax
2010 – Earnings from discontinued operations, net of tax were $149 million and were primarily attributable to the operations of the Shipbuilding business which was spun-off in March 2011, and adjustments to the gain on the 2009 sale of ASD to reflect a purchase price adjustment and the utilization of additional capital loss carry-forwards.

2009 – Earnings from discontinued operations, net of tax were $252 million for 2009, compared with a loss of $2,280 million in 2008. The earnings in 2009 were primarily attributable to the operations of the Shipbuilding business which was spun-off in March 2011, and the operations and gain on disposition of ASD, which was sold in December 2009. The loss in 2008 included a Shipbuilding non-cash goodwill impairment charge of $2,490 million due to adverse equity market conditions that caused a decrease in market multiples and our stock price. See Notes 6 and 11 to our consolidated financial statements in Part II, Item 8.

Diluted Earnings Per Share from Continuing Operations

2010 – Diluted earnings per share from continuing operations in 2010 were $6.32 per share, as compared with $4.44 diluted earnings per share in 2009. Diluted earnings per share are based on weighted-average diluted shares outstanding of 301.1 million for 2010 and 323.3 million for 2009, respectively.

2009 – Diluted earnings per share from continuing operations in 2009 were $4.44 per share, as compared with $2.98 diluted earnings per share in 2008. Earnings per share are based on weighted-average diluted shares outstanding of 323.3 million for 2009 and weighted average diluted shares outstanding of 341.6 million for 2008. The goodwill impairment charge of $570 million at Aerospace Systems reduced our 2008 diluted earnings per share from continuing operations by $1.67 per share.

Cash Provided by Continuing Operations

2010 – Cash provided by continuing operations in 2010 was $2.1 billion as compared with $2 billion in 2009 and reflects higher cash paid to our suppliers offset by lower tax payments, primarily due to $508 million for taxes paid in 2009 related to the sale of ASD. In 2010, we contributed $789 million to our pension plans, of which $728 million was voluntarily pre-funded, as compared with $657 million in 2009, of which $601 million was voluntarily pre-funded. Income taxes paid, net of refunds, was $1.1 billion in 2010, as compared with $1.3 billion in 2009.

Cash provided by continuing operations for 2010 included $94 million of federal and state income tax refunds and $11 million of interest income received.

2009 – Cash provided by continuing operations in 2009 was $2 billion compared with $2.7 billion in 2008 and reflects higher pension plan contributions and income tax payments. In 2009, we contributed $657 million to our pension plans, of which $601 million was voluntarily pre-funded, as compared with $206 million in 2008, of which $140 million was voluntarily pre-funded. Income taxes paid, net of refunds, was $1.3 billion in 2009, as compared with $719 million in 2008. Income taxes paid in 2009 included $508 million resulting from the sale of ASD.

Cash provided by continuing operations for 2009 included $171 million of federal and state income tax refunds and $11 million of interest income.

SEGMENT OPERATING RESULTS

Basis of Presentation

We are aligned into four reportable segments: Aerospace Systems, Electronic Systems, Information Systems and Technical Services. See Note 7 to our consolidated financial statements in Part II, Item 8 for more information about our segments.

In January 2010, we transferred our internal information technology services unit from the Information Systems segment to our corporate shared services group. The intersegment sales and operating income for this unit that were previously recognized in the Information Systems segment are immaterial and have been eliminated for the years presented.

$ in millions	Year Ended December 31 2010	2009	2008
Sales and Service Revenues			
Aerospace Systems	**$10,910**	$ 10,419	$ 9,825
Electronic Systems	**7,613**	7,671	7,048
Information Systems	**8,395**	8,536	8,174
Technical Services	**3,230**	2,776	2,535
Intersegment eliminations	**(2,005)**	(1,752)	(1,331)
Total sales and service revenues	**$28,143**	$27,650	$26,251

$ in millions	Year Ended December 31 2010	2009	2008
Operating Income			
Aerospace Systems	**$1,256**	$ 1,071	$ 416
Electronic Systems	**1,023**	969	947
Information Systems	**756**	624	626
Technical Services	**206**	161	144
Intersegment eliminations	**(231)**	(190)	(118)
Total Segment Operating Income	**3,010**	2,635	2,015
Non-segment factors affecting operating income			
Unallocated corporate expenses	**(182)**	(100)	(141)
Net pension adjustment	**10**	(237)	272
Royalty income adjustment	**(11)**	(24)	(70)
Total operating income	**$2,827**	$ 2,274	$2,076

See Consolidated Operating Results – Operating Income above for more information on non-segment factors affecting our operating results.

KEY SEGMENT FINANCIAL MEASURES

Operating Performance Assessment and Reporting

We manage and assess the performance of our businesses based on our performance on individual contracts and programs obtained generally from government organizations using the financial measures referred to below, with consideration given to the Critical Accounting Policies, Estimates and Judgments described on page 21. As indicated in our discussion on “Contracts” on page 20, our portfolio of long-term contracts is largely flexibly-priced, which means that sales tend to fluctuate in concert with costs across our large portfolio of active contracts, with operating income being a critical measure of operational performance. Due to FAR rules that govern our business, most types of costs are allowable, and we do not focus on individual cost groupings (such as cost of sales or general and administrative costs) as much as we do on total contract costs, which are a key factor in determining contract operating income. As a result, in evaluating our operating performance, we look primarily at changes in sales and service revenues, and operating income, including the effects of significant changes in operating income as a result of changes in contract estimates and the use of the cumulative catch-up method of accounting in accordance with GAAP. Unusual fluctuations in operating performance attributable to changes in a specific cost element across multiple contracts, however, are described in our analysis. Based on this approach and the nature of our operations, the discussion of results of operations generally focuses around our five segments versus distinguishing between products and services. Our Aerospace Systems and Electronic Systems segments generate predominantly product sales, while the Information Systems and Technical Services segments generate predominantly service revenues.

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 reported revenues 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 aggregate performance results of contracts within a business area or segment. 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 FAR, 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 estimated costs at completion of the contract (EAC) that reflect improved (or deteriorated) operating performance on a particular contract. Operating income changes 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, 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.

For a more complete understanding of each segment's product and services, see the business descriptions in Part I, Item 1.

Program Descriptions

For convenience, a brief description of certain programs discussed in this Form 10-K are included in the "Glossary of Programs" below.

AEROSPACE SYSTEMS

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Sales and Service Revenues	**$10,910**	$10,419	$9,825
Segment Operating Income	**1,256**	1,071	416
As a percentage of segment sales	***11.5%***	*10.3%*	*4.2%*

Sales and Service Revenues

2010 – Aerospace Systems revenue increased $491 million, or 5 percent, as compared with 2009. The increase is primarily due to $517 million higher sales in Battle Management & Engagement Systems (BM&ES) and $218 million higher sales in Strike & Surveillance Systems (S&SS), partially offset by $315 million lower sales in Advanced Programs & Technology (AP&T). The increase in BM&ES is due to higher sales volume on the Broad Area Maritime Surveillance (BAMS) Unmanned Aircraft System, EA-6B, EA-18G, E-2 and Long Endurance Multi-Intelligence Vehicle (LEMV) programs. The increase in S&SS is primarily due to higher sales volume associated with manned and unmanned aircraft programs, such as the Global Hawk High-Altitude Long-Endurance (HALE) Systems, the F-35 Lightning II (F-35), B-2 Stealth Bomber and F/A-18, partially offset by the termination of the Kinetic Energy Interceptor (KEI) program in 2009 and decreased activity on the Intercontinental Ballistic Missile (ICBM) program. The decrease in AP&T is primarily due to lower sales volume on restricted programs and the Navy Unmanned Combat Air System (N-UCAS) program.

2009 – Aerospace Systems revenue increased $594 million, or 6 percent, as compared with 2008. The increase was primarily due to $201 million higher sales in Space Systems (SS), $201 million higher sales in BM&ES, and $191 million higher sales in S&SS. The increase in SS was primarily due to the ramp-up of restricted programs awarded in 2008, partially offset by decreased sales volume on the National Polar-orbiting Operational Environmental Satellite System (NPOESS) and cancellation of the Transformational Satellite Communications System (TSAT) program. The increase in BM&ES was primarily due to higher sales volume on the BAMS Unmanned Aircraft System, the E-2D Advanced Hawkeye, and the EA-18G programs, partially offset by lower sales volume on the E2-C as the program is nearing completion. The increase in S&SS was primarily due to higher sales volume from the Global Hawk HALE Systems, F-35, F/A-18, and B-2 programs, partially offset by decreased activity on the KEI program, which was terminated for convenience in 2009, and the ICBM program.

Segment Operating Income

2010 – Aerospace Systems operating income increased $185 million, or 17 percent, as compared with 2009. The increase is primarily due to $128 million in net performance improvements across various programs, principally within SS, and $57 million from the higher sales volume discussed above.

2009 – Aerospace Systems operating income increased $655 million, or 157 percent, as compared with 2008. The increase was primarily due to a 2008 goodwill impairment charge of $570 million (see Note 11 to our consolidated financial statements in Part II, Item 8), $61 million from the higher sales volume discussed above, and $24 million in improved program performance. The $24 million in improved program performance was principally due to $67 million in performance improvements in S&SS programs, primarily related to the ICBM program and the Global Hawk HALE Systems, partially offset by $33 million in lower performance across various programs in SS and BM&ES.

ELECTRONIC SYSTEMS

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Sales and Service Revenues	**$7,613**	$7,671	$7,048
Segment Operating Income	**1,023**	969	947
As a percentage of segment sales	***13.4%***	*12.6%*	*13.4%*

Sales and Service Revenues

2010 – Electronic Systems revenue decreased $58 million, or less than 1 percent, as compared with 2009. The decrease is primarily due to $150 million lower sales in Land & Self Protection Systems, $84 million lower sales in Intelligence, Surveillance & Reconnaissance (ISR) Systems and $82 million lower sales in Naval & Marine Systems, partially offset by $186 million higher sales in Targeting Systems and $72 million higher sales in Advanced Concepts & Technologies. The decrease in Land & Self Protection Systems is due to lower sales volume on the Ground/Air Task Oriented Radar (G/ATOR) program as it transitions from the development phase to the integration and test phase and lower unit deliveries on the Vehicular Intercommunications Systems (VIS) program. The decrease in ISR Systems is due to lower sales volume on the Space Based Infrared Systems (SBIRS) program as it transitions to follow-on production, postal automation programs and various international programs. The decrease in Naval & Marine Systems is due to lower volume on the ship-board Cobra Judy replacement radar program. The increase in Targeting Systems is due to higher sales volume on the F-35, various laser systems and restricted programs and increased unit deliveries of the LITENING targeting pod system. The increase in Advanced Concepts & Technologies is primarily due to volume on restricted programs.

2009 – Electronic Systems revenue increased $623 million, or 9 percent, as compared with 2008. The increase was primarily due to $213 million higher sales in Targeting Systems, $188 million higher sales in ISR Systems, $88 million higher sales in Land & Self Protection Systems, $80 million higher sales in Navigation Systems and $30 million higher sales in Naval & Marine Systems. The increase in Targeting Systems was due to higher sales volume on the F-35 and restricted programs. The increase in ISR Systems was due to higher sales volume on SBIRS follow-on production and intercompany programs. The increase in Land & Self Protection Systems was due to higher deliveries associated with the Large Aircraft Infrared Countermeasures (LAIRCM) program, higher volume on the B-52 Sustainment and intercompany programs. The increase in Navigation Systems was due to higher volume on Inertial and Fiber Optic Gyro navigation programs. The increase in Naval & Marine Systems was due to higher volume on power and propulsion systems for the *Virginia*-class submarine program.

Segment Operating Income

2010 – Electronic Systems operating income increased $54 million, or 6 percent, as compared with 2009. The increase is primarily due to net performance improvements in land and self protection programs, higher volume in Targeting Systems, and lower operating loss provisions in postal automation programs.

2009 – Electronic Systems operating income increased $22 million, or 2 percent, as compared with 2008. The increase was primarily due to $79 million from the higher sales volume discussed above, partially offset by $57 million in higher unfavorable performance adjustments in 2009. The higher unfavorable performance adjustments in 2009 were due to adjustments of $98 million in ISR Systems, primarily on the Flats Sequencing System postal automation program, partially offset by favorable performance adjustments in targeting systems and land and self protection programs. Operating performance adjustments in 2008 included royalty income of $60 million and a $20 million charge for the MESA Wedgetail program associated with potential liquidated damages arising from the prime contractor’s announced schedule delay in completing the program.

INFORMATION SYSTEMS

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Sales and Service Revenues	**$8,395**	$8,536	$8,174
Segment Operating Income	**756**	624	626
As a percentage of segment sales	***9.0%***	*7.3%*	*7.7%*

Sales and Service Revenues

2010 – Information Systems revenue decreased $141 million, or 2 percent, as compared with 2009. The decrease is primarily due to $130 million lower sales in Intelligence Systems and $57 million lower sales in Civil Systems, partially offset by $55 million higher sales in Defense Systems. The decrease in Intelligence Systems is primarily due to lower sales volume on restricted programs and the loss of the Navstar Global Positioning System Operational Control Segment (GPS OCX) program. The decrease in Civil Systems is primarily due to lower sales volume on the New York City Wireless (NYCWiN) and Armed Forces Health Longitudinal Technology Application (AHLTA) programs. The increase in Defense Systems is primarily due to program growth on Battlefield Airborne Communications Node (BACN), Joint National Integration Center Research and Development Contract (JRDC) and Integrated Battle Command System (IBCS) activities, partially offset by lower sales volume on the Trailer Mounted Support System (TMSS) program as it nears completion, and decreased Systems and Software Engineer Support activities.

2009 – Information Systems revenue increased $362 million, or 4 percent, as compared with 2008. The increase was primarily due to $285 million in higher sales in Intelligence Systems and $194 million in higher sales in Defense Systems, partially offset by $123 million in lower sales in Civil Systems. The increase in Intelligence Systems was primarily due to program growth on the Counter Narco-Terrorism Program Office (CNTPO), Guardrail Common Sensor System indefinite delivery indefinite quantity (IDIQ) and certain restricted programs, partially offset by lower sales volume on the Navstar GPS OCX program. The increase in Defense Systems was primarily due to program growth on TMSS, Airborne and Maritime/Fixed Stations Joint Tactical Radio Systems and BACN programs, partially offset by fewer delivery orders on the Force XXI Battle Brigade and Below (FBCB2) I-Kits program. The decrease in Civil Systems was primarily due to lower volume on NYCWiN and Virginia IT outsourcing (VITA) programs.

Segment Operating Income
2010 – Information Systems operating income increased $132 million, or 21 percent, as compared with 2009 and as percentage of sales increased 170 basis points. The increase is primarily due to performance improvements on Civil Systems programs. In 2009, operating income included $37 million of non-recurring costs associated with the sale of ASD.

2009 – Information Systems operating income decreased $2 million as compared with 2008. The decrease was primarily due to $30 million from the higher sales volume discussed above, offset by non-recurring costs associated with the sale of ASD and unfavorable performance results in Civil Systems programs, principally due to the VITA outsourcing program for the Commonwealth of Virginia.

TECHNICAL SERVICES

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Sales and Service Revenues	**$3,230**	$2,776	$2,535
Segment Operating Income	**206**	161	144
As a percentage of segment sales	***6.4%***	*5.8%*	*5.7%*

Sales and Service Revenues
2010 – Technical Services revenue increased $454 million, or 16 percent, as compared with 2009. The increase is primarily due to $379 million higher sales in the Integrated Logistics and Modernization Division (ILMD). The increase in ILMD is primarily due to the continued ramp-up of the recently awarded KC-10 and C-20 programs.

2009 – Technical Services revenue increased $241 million, or 10 percent, as compared with 2008. The increase was primarily due to $245 million higher sales in ILMD, and $74 million higher sales in Training Solutions Division (TSD), partially offset by $72 million lower sales in Defense and Government Services Division (DGSD). The increase in ILMD was due to increased task orders for the CNTPO program and higher demand on the Hunter Contractor Logistics Support (CLS) programs in support of the DoD's surge in Intelligence, Surveillance, and Reconnaissance (ISR) initiatives. The increase in TSD was due to higher volume on various training and simulation programs including the Joint Warfighting Center Support, Saudi Arabia National Guard Modernization and Training, Global Linguist Solutions, National Level Exercise 2009 and African Contingency Operations Training Assistance programs. These increases were partially offset by lower 2009 sales in DGSD due to the completion of the Joint Base Operations Support program in 2008.

Segment Operating Income
2010 – Operating income at Technical Services increased $45 million, or 28 percent, as compared with 2009. The increase is primarily due to the higher sales volume discussed above. Operating income as a percentage of sales increased 60 basis points and reflects improved program performance and business mix changes.

2009 – Operating income at Technical Services increased $17 million, or 12 percent, as compared with 2008. The increase was primarily due to the higher sales volume discussed above and $3 million from performance improvements across numerous programs.

BACKLOG

Definition
Total backlog at December 31, 2010, was approximately $46.8 billion. Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded indefinite delivery indefinite quantity (IDIQ) orders. For multi-year services contracts with non-federal government customers having no stated contract values, backlog includes only the amounts committed by the customer.

The following table presents funded and unfunded backlog by segment at December 31, 2010, and 2009:

	2010			2009		
$ in millions	**Funded**	**Unfunded**	**Total Backlog**	Funded	Unfunded	Total Backlog
Aerospace Systems	**$ 9,185**	**$ 11,683**	**$ 20,868**	$ 8,320	$ 16,063	$ 24,383
Electronic Systems	**8,093**	**2,054**	**10,147**	7,591	2,784	10,375
Information Systems	**4,711**	**5,879**	**10,590**	4,319	4,508	8,827
Technical Services	**2,763**	**2,474**	**5,237**	2,352	2,804	5,156
Total Backlog	**$24,752**	**$ 22,090**	**$ 46,842**	$22,582	$26,159	$ 48,741

Backlog is converted into the following years' sales as costs are incurred or deliveries are made. Approximately 55 percent of the $46.8 billion total backlog at December 31, 2010, is expected to be converted into sales in 2011. Total U.S. Government orders, including those made on behalf of foreign governments, comprised 88 percent of the total backlog at the end of 2010. Total foreign customer orders accounted for 7 percent of the total backlog at the end of 2010. Domestic commercial backlog represented 5 percent of total backlog at the end of 2010.

Backlog Adjustments
2010 – A $1.1 billion reduction in backlog was recorded in 2010 as a result of the restructure of the NPOESS program at our Aerospace Systems segment.

Backlog was also impacted in 2010 by an agreement we reached with the Commonwealth of Virginia related to the VITA contract. The agreement defined minimum revenue amounts for the remaining years under the base contract and extended the contract for three additional years through 2019. We recorded a favorable backlog adjustment of $824 million for the definitization of the base contract revenues for years 2011 through 2016, while the contract extension and 2010 portion of the base contract revenues, totaling $802 million, were recorded as new awards in the period in our Information Systems segment.

2009 – Total backlog in 2009 reflects a negative backlog adjustment of $5.1 billion for the Kinetic Energy Interceptor program termination for convenience at Aerospace Systems.

New Awards
2010 – The estimated value of contract awards included in backlog during the year ended December 31, 2010, was $26.4 billion. Significant new awards during this period include $1.2 billion for the Global Hawk HALE program, $979 million for the E-2 Hawkeye programs, $942 million for the AEHF program, $802 million for the VITA program, $677 million for the Joint National Integration Center Research and Development contract, $656 million for the F/A 18 Hornet Strike Fighter program, $654 million for the ICBM program, $631 million for the B-2 Stealth Bomber programs, $579 million for the F-35 program, $565 million for the NSTec program, $507 for the KC-10 program, $505 million for the Large Aircraft Infrared Counter-measures programs and various restricted awards.

2009 – The estimated value of new contract awards during the year ended December 31, 2009, was $27.3 billion. Significant new awards during this period include $1.2 billion for the F-35 LRIP program, $1.2 billion for the Global Hawk HALE program, $1 billion for the B-2 program, $485 million for the Nevada Test Site program, $484 million for the E2-D LRIP program, $437 million for the IBCS program, $403 million for the SBIRS follow on production program, $385 million for the Saudi Arabian National Guard Modernization and Training program, $360 million for the BACN program, $296 million to finalize the development of the Distributed Common Ground System-Army (DCGS-A), $286 million for the LAIRCM IDIQ, and various restricted awards.

LIQUIDITY AND CAPITAL RESOURCES

We endeavor to ensure the most efficient conversion of operating results into cash for deployment in growing our businesses and maximizing shareholder value. We actively manage our capital resources through working capital improvements, capital expenditures, strategic business acquisitions and divestitures, debt issuance and repayment, required and voluntary pension contributions, and returning cash to our shareholders through dividend payments and repurchases of common stock.

We use 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. We believe these measures are useful to investors in assessing our financial performance.

The table below summarizes key components of cash flow provided by continuing operations.

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Net earnings (loss)	**$2,053**	$1,686	$(1,262)
(Earnings) loss from discontinued operations, net of tax	**(134)**	(234)	2,306
Gain on sale of business	**(10)**	(446)	(66)
Charge on debt redemption	**229**		
Impairment of goodwill			570
Other non-cash items(1)	**758**	857	793
Retiree benefit funding in excess of expense	**(354)**	60	(297)
Trade working capital (increase) decrease	**(486)**	72	661
Cash provided by continuing operations	**$2,056**	$1,995	$ 2,705

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

Free Cash Flow

Free cash flow represents cash provided by continuing operations less capital expenditures and outsourcing contract and related software costs. Outsourcing contract and related software costs are similar to capital expenditures in that the contract costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition and transition/set-up. These outsourcing contract and related software costs are deferred and expensed over the contract life. We believe free cash flow is a useful measure for investors to consider. This measure is a key factor used by management in our planning for and consideration of strategic acquisitions, stock repurchases and the payment of 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, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP as indicators of performance.

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

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Cash provided by continuing operations	**$ 2,056**	$1,995	$2,705
Less:			
Capital expenditures	**(579)**	(473)	(463)
Outsourcing contract & related software costs	**(6)**	(68)	(110)
Free cash flow	**$1,471**	$ 1,454	$ 2,132

Cash Flows

The following is a discussion of our major operating, investing and financing activities for each of the three years in the period ended December 31, 2010, as classified on the consolidated statements of cash flows located in Part II, Item 8.

Operating Activities

2010 – Cash provided by continuing operations in 2010 increased $61 million as compared with 2009, primarily the result of lower tax payments. Pension plan contributions totaled $789 million in 2010, of which $728 million was voluntarily pre-funded. In 2009, cash provided by continuing operations included $508 million for taxes paid related to the sale of ASD.

In 2011, we expect to contribute the required minimum funding level of approximately $59 million to our pension plans and approximately $124 million to our other post-retirement benefit plans, and also expect to make additional voluntary pension contributions of approximately $500 million. We expect cash provided by continuing operations in 2011 will 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 our shareholders. Although 2011 cash from continuing operations is expected to be sufficient to service these obligations, we may borrow under credit facilities to accommodate timing differences in cash flows. We have a committed $2 billion revolving credit facility that is currently undrawn and that can be accessed on a same-day basis. Additionally, we believe we could access capital markets for debt financing for longer-term funding, under current market conditions, if needed.

2009 – Cash provided by continuing operations in 2009 decreased $710 million as compared with 2008, reflecting higher voluntary pension contributions and increased income taxes paid resulting from the sale of ASD. Pension plan contributions totaled $657 million in 2009, of which $601 million was voluntary pre-funded.

2008 – Cash provided by continuing operations in 2008 increased $655 million as compared with 2007, and reflects lower income tax payments and continued trade working capital reductions. Pension plan contributions totaled $206 million in 2008, of which $140 million was voluntarily pre-funded, and were comparable to 2007. Cash provided by continuing operations for 2008 included $113 million of federal and state income tax refunds and $23 million of interest income.

Investing Activities

2010 – Cash used in investing activities by continuing operations was $571 million in 2010 and reflects $579 million of capital expenditures, which includes $57 million of capitalized software costs. Capital expenditure commitments at December 31, 2010, were approximately $386 million, which are expected to be paid with cash on hand.

2009 – Cash provided by investing activities by continuing operations was $1.1 billion in 2009. During 2009, we received $1.65 billion in proceeds from the sale of ASD (see Note 6 to our consolidated financial statements in Part II, Item 8), paid $68 million for outsourcing costs related to outsourcing services contracts, and paid

$33 million to acquire Sonoma Photonics, Inc. and the assets from Swift Engineering's Killer Bee Unmanned Air Systems product line (see Note 5 to our consolidated financial statements in Part II, Item 8). Capital expenditures in 2009 were $473 million and included $36 million of capitalized software costs.

2008 – Cash used in investing activities by continuing operations was $469 million in 2008. During 2008, we received $175 million in proceeds from the sale of the Electro-Optical Systems business, spent $92 million for the acquisition of 3001 International, Inc. (see Notes 5 and 6 to our consolidated financial statements in Part II, Item 8), paid $110 million for outsourcing costs related to outsourcing services contracts. We had $11 million in restricted cash as of December 31, 2008 related to the Xinetics Inc. purchase (see Note 5 to our consolidated financial statements in Part II, Item 8). Capital expenditures in 2008 were $463 million and included $23 million of capitalized software costs.

Financing Activities

2010 – Cash used in financing activities by continuing operations in 2010 was $1.1 billion as compared to $1.2 billion in 2009 and reflects $1 billion in debt payments, including the repurchase of $682 million of higher coupon debt, $229 million for fees and associated premiums paid to the tendering holders of these debt securities. These financing outflows were offset by $1.5 billion in net proceeds from new debt issuances. See Note 13 to our consolidated financial statements in Part II, Item 8. In addition, we repurchased $1.2 billion of our common shares outstanding in 2010.

2009 – Cash used in financing activities by continuing operations in 2009 was $1.2 billion compared with $2 billion in 2008 and reflects $843 million in net proceeds from new debt issuance in 2009. See Note 13 to our consolidated financial statements in Part II, Item 8.

2008 – Cash used in financing activities by continuing operations in 2008 was $2 billion compared to $1.5 billion in 2007. The $532 million increase is primarily due to $380 million more for share repurchases and $171 million lower proceeds from stock option exercises.

Share Repurchases – We repurchased 19.7 million, 23.1 million, and 21.4 million shares in 2010, 2009, and 2008, respectively. See Purchases of Equity Securities by Issuer and Affiliated Purchasers in Part II, Item 5 and Note 4 to our consolidated financial statements in Part II, Item 8 for a discussion concerning our common stock repurchases.

Credit Facility

We have a revolving credit agreement, which provides for a five-year revolving credit facility in an aggregate principal amount of $2 billion and a maturity date of August 10, 2012. The credit facility permits us to request additional lending commitments from the lenders under the agreement or other eligible lenders under certain circumstances, and thereby increase the aggregate principal amount of the lending commitments under the agreement by up to an additional $500 million. Our credit agreement contains a financial covenant relating to a maximum debt to capitalization ratio, and certain restrictions on additional asset liens, unless permitted by the agreement. As of December 31, 2010, we were in compliance with all covenants.

There were no borrowings during 2010 and 2009 under this facility. There was no balance outstanding under this facility at December 31, 2010, and 2009.

Other Sources and Uses of Capital

Additional Capital – We believe we can obtain additional capital, if necessary for long-term liquidity, from such sources as the public or private capital markets, the sale of assets, sale and leaseback of operating assets, and leasing rather than purchasing new assets. We have an effective shelf registration statement on file with the SEC.

We expect that cash on hand at the beginning of the year plus cash generated from continuing operations supplemented by borrowings under credit facilities and in the capital markets, if needed, will be sufficient in 2011 to service debt and contract obligations, finance capital expenditures, pay federal, foreign, and state income taxes, fund required and voluntary pension and other post retirement benefit plan contributions, continue acquisition of shares under the share repurchase program, and continue paying dividends to shareholders. We will continue to provide the productive capacity to perform our existing contracts, prepare for future contracts, and conduct research and development in the pursuit of developing opportunities.

Financial Arrangements – In the ordinary course of business, we use 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 our self-insured workers' compensation plans. At December 31, 2010, there were $196 million of unused stand-by letters of credit, $192 million of bank guarantees, and $150 million of surety bonds outstanding.

Contractual Obligations

The following table presents the contractual obligations for our continuing operations as of December 31, 2010, and the estimated timing of future cash payments:

$ in millions	Total	2011	2012 - 2013	2014 - 2015	2016 and beyond
Long-term debt	$ 4,702	$ 773	$ 9	$ 855	$ 3,065
Interest payments on long-term debt	2,926	234	415	400	1,877
Operating leases	1,378	347	463	305	263
Purchase obligations(1)	7,331	4,997	2,049	274	11
Other long-term liabilities(2)	914	245	218	155	296
Total contractual obligations	$17,251	$6,596	$3,154	$1,989	$ 5,512

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

(2) Other long-term liabilities primarily consist of total accrued environmental reserves, deferred compensation, and other miscellaneous liabilities, of which $106 million and $197 million of the environmental reserves, respectively, are recorded in other current liabilities. It excludes obligations for uncertain tax positions of $135 million, as the timing of the payments, if any, cannot be reasonably estimated.

The table above also excludes estimated minimum funding requirements and expected voluntary contributions for retiree benefit plans as set forth by ERISA in relation to the company's pension and postretirement benefit obligations totaling approximately $2.4 billion over the next five years: $683 million in 2011, $270 million in 2012, $484 million in 2013, $476 million in 2014, and $498 million in 2015. The company also has payments due under plans that are not required to be funded in advance, but are funded on a pay-as-you-go basis. See Note 16 to our consolidated financial statements in Part II, Item 8.

Further details regarding long-term debt and operating leases can be found in Notes 13 and 15, respectively, to our consolidated financial statements in Part II, Item 8.

OTHER MATTERS

Accounting Standards Updates

The Financial Accounting Standards Board has issued new accounting standards which are not effective until after December 31, 2010. For further discussion of new accounting standards, see Note 2 to our consolidated financial statements in Part II, Item 8.

Off-Balance Sheet Arrangements

As of December 31, 2010, we had no significant off-balance sheet arrangements other than operating leases. For a description of our operating leases, see Note 15 to our consolidated financial statements in Part II, Item 8.

GLOSSARY OF PROGRAMS

Listed below are brief descriptions of the programs discussed in Segment Operating Results of this Form 10-K.

Program Name	Program Description
Advanced Extremely High Frequency (AEHF)	Provide the communication payload for the nation's next generation military strategic and tactical satellite relay systems that will deliver survivable, protected communications to U.S. forces and selected allies worldwide.
African Contingency Operations Training Assistance (ACOTA)	Provide peacekeeping training to militaries in African nations via the Department of State. The program is designed to improve the ability of African governments to respond quickly to crises by providing selected militaries with the training and equipment required to execute humanitarian or peace support operations.
Airborne and Maritime/Fixed Stations Joint Tactical Radio Systems (AMF JTRS)	AMF JTRS will develop a communications capability that includes two software-defined, multifunction radio form factors for 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.
Armed Forces Health Longitudinal Technology Application (AHLTA)	An enterprise-wide medical and dental clinical information system that provides secure online access to health records.
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.
B-52 Sustainment	B-52 ALQ-155, ALQ-122, ALT-16, ALT-32 and ALR-20 Power Management Systems are legacy electronic countermeasures systems protecting the B-52 over a wideband frequency range. The program provides design and test products to resolve obsolescence and maintainability issues using modern digital receiver/exciter designs.
Battlefield Airborne Communications Node (BACN)	Install the BACN system in three Bombardier BD-700 Global Express aircraft for immediate fielding and install the BACN system into two Global Hawk Block 20 unmanned aerial vehicles.
Broad Area Maritime Surveillance (BAMS) Unmanned Aircraft System	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.
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.

NORTHROP GRUMMAN CORPORATION

Program Name	**Program Description**
Counter Narco-Terrorism Program Office (CNTPO)	Counter Narco Terrorism Program Office provides support to the U.S. Government, coalition partners, and host nations in Technology Development and Application Support; Training; Operations and Logistics Support; and Professional and Executive Support. The program provides equipment and services to research, develop, upgrade, install, fabricate, test, deploy, operate, train, maintain, and support new and existing federal Government platforms, systems, subsystems, items, and host- nation support initiatives.
C-20	Contractor Logistics Services (CLS) contract supporting the U.S. Air Force, Army, Navy and Marine Corps C-20 aircraft including depot maintenance, contractor operational and maintained base supply, flight line maintenance and field team support at multiple Main Operating Bases (MOBs), located in the United States and overseas.
Distributed Common Ground System-Army (DCGS-A) Mobile Basic	DCGS-A Mobile Basic is the Army's latest in a series of DCGS-A systems designed to access and ingest multiple data types from a wide variety of intelligence sensors, sources and databases. This new system will also deliver greater operational and logistical advantages over the currently-fielded DCGS-A Version 3 and the nine ISR programs it replaces.
E-2 Hawkeye	The U.S. Navy's airborne battle management command and control mission system platform providing airborne early warning detection, identification, tracking, targeting, and communication capabilities. The company is developing the next generation capability including radar, mission computer, vehicle, and other system enhancements, to support the U.S Naval Battle Groups and Joint Forces, called the E-2D. The U.S, Navy approved Milestone C for Low Rate Initial Production.
EA-6B	The EA-6B (Prowler) primary mission is to jam enemy radar and communications, thereby preventing them from directing hostile surface-to-air missiles at assets the Prowler protects. When equipped with the improved ALQ-218 receiver and the next generation ICAP III (Increased Capability) Airborne Electronic Attack (AEA) suite the Prowler is able to provide rapid detection, precise classification, and highly accurate geolocation of electronic emissions and counter modern, frequency-hopping radars. A derivative/variant of the EA-6B ICAP III mission system is also being incorporated into the F/A- 18 platform and designated the EA-18G.
EA-18G	The EA-18G is the replacement platform for the EA6B Prowler, which is currently the armed services' only offensive tactical radar jamming aircraft. The Increased Capability (ICAP) III mission system capability, developed for the EA-6B Prowler, will be in incorporated into an F/A-18 platform (designated the EA-18G).
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-35 Lightning II	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.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
Flats Sequencing System (FSS) / Postal Automation	Build systems for the U.S. Postal Service designed to further automate the flat mail stream, which includes large envelopes, catalogs and magazines.
Force XXI Battle Brigade and Below (FBCB2)	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.
Global Hawk High-Altitude Long-Endurance (HALE) Systems	Provide the Global Hawk HALE 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.
Global Linguist Solutions (GLS)	Provide interpretation, translation and linguist services in support of Operation Iraqi Freedom.
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.
Guardrail Common Sensor System IDIQ (GRCS-I)	Sole source IDIQ contract which will encompass efforts for the upgrade and modernization of the current field Guardrail systems.
Hunter Contractor Logistics Support (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 products 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.
Integrated Battle Command System (IBCS)	The Integrated Air & Missile Defense, Battle Command System (IBCS) component concept provides for a common battle management, command, control, communications, computers and intelligence capability with integrated fire control hardware/software product design, integration, and development that supports initial operational capability of the Joint Integrated Air and Missile Defense Increment 2.
Intercontinental Ballistic Missile (ICBM)	Maintain readiness of the nation's ICBM weapon system.
Joint Base Operations Support (JBOSC)	Provides all infrastructure support needed for launch and base operations at the NASA Spaceport.
Joint National Integration Center Research and Development Contract (JRDC)	Support the development and application of modeling and simulation, wargaming, test and analytic tools for air and missile defense.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
Joint Warfighting Center Support (JWFC)	Provide non-personal general and technical support to the USJFCOM Joint Force Trainer / Joint Warfighting Center to ensure the successful worldwide execution of the Joint Training and Transformation missions.
KC-10	Contractor Logistics Services (CLS) contract supporting the U.S. Air Force KC-10 tanker fleet including depot maintenance, supply chain management, maintenance and management at locations in the United States and worldwide.
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. This program was terminated for the U.S. government's convenience in 2009.
Large Aircraft Infrared Countermeasures (LAIRCM)	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.
LITENING targeting pod system (LITENING)	A self-contained, multi-sensor weapon aiming system that enables fighter pilots to detect, acquire, auto-track and identify targets for highly accurate delivery of both conventional and precision-guided weapons.
Long Endurance Multi-Intelligence Vehicle (LEMV)	Contract awarded by the U.S. Army Space and Missile Defense Command for the development, fabrication, integration, certification and performance of one LEMV system. It is a state- of-the-art, lighter-than-air airship designed to provide ground troops with persistent surveillance. Development and demonstration of the first airship is scheduled to be completed December 2011. The contract also includes options for two additional airships and in-country support.
MESA Radar Product	The Multi-role Electronically Scanned Array (MESA) Radar product line provides an Advanced AESA Radar for AEW&C mission on a Boeing 737 Aircraft. This product is currently under contract with three international customers.
National Level Exercise 2009 (NLE)	Provide program management and the necessary technical expertise to assist the FEMA National Exercise Division with planning, conducting and evaluating the FY09 Tier 1 National Level Exercise (NLE 09).
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. This program was restructured in 2010.
Navy Unmanned Combat Air System Operational Assessment (N-UCAS)	Navy development/demonstration contract that will design, build and test two demonstration vehicles that will conduct a carrier demonstration.
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.

NORTHROP GRUMMAN CORPORATION

Program Name	Program Description
New York City Wireless Network (NYCWiN)	Provide New York City's broadband public- safety wireless network.
Saudi Arabian National Guard Modernization and Training (SANG)	Provide military training, logistics and support services to modernize the Saudi Arabian National Guard's capabilities to unilaterally execute and sustain military operations.
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.
Trailer Mounted Support System (TMSS)	Trailer Mounted Support System is a key part of the Army's SICPS Program providing workspace, power distribution, lighting, environmental conditioning (heating and cooling) tables and a common grounding system for commanders and staff at all echelons.
Transformational Satellite Communication System (TSAT) – Risk Reduction and System Definition (RR&SD)	Design, develop, brassboard and demonstrate key technologies to reduce risk in the TSAT space element and perform additional risk mitigation activities. This program was terminated in 2009.
Vehicular Intercommunications Systems (VIS)	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 Outsource (VITA)	Provide high-level IT consulting, IT infrastructure and services to Virginia state and local agencies including data center, help desk, desktop, network, applications and cross-functional services.

EXHIBIT 99.4

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated statements of financial position of Northrop Grumman Corporation and subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northrop Grumman Corporation and subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 8, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Los Angeles, California
February 8, 2011
(June 16, 2011 as to the reclassification of the Shipbuilding segment as discontinued operations as described in Note 1)

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31		
$ in millions, except per share amounts	**2010**	2009	2008
Sales and Service Revenues			
Product sales	**$16,091**	$ 16,004	$ 14,549
Service revenues	**12,052**	11,646	11,702
Total sales and service revenues	**28,143**	27,650	26,251
Cost of Sales and Service Revenues			
Cost of product sales	**11,812**	12,330	10,965
Cost of service revenues	**11,037**	10,475	10,063
General and administrative expenses	**2,467**	2,571	2,577
Goodwill impairment			570
Operating income	**2,827**	2,274	2,076
Other (expense) income			
Interest expense	**(269)**	(269)	(271)
Charge on debt redemption	**(229)**		
Other, net	**37**	65	36
Earnings from continuing operations before income taxes	**2,366**	2,070	1,841
Federal and foreign income taxes	**462**	636	823
Earnings from continuing operations	**1,904**	1,434	1,018
Earnings (loss) from discontinued operations, net of tax	**149**	252	(2,280)
Net earnings (loss)	**$ 2,053**	$ 1,686	$ (1,262)
Basic Earnings (Loss) Per Share			
Continuing operations	**$ 6.41**	$ 4.49	$ 3.04
Discontinued operations	**.50**	.79	(6.81)
Basic earnings (loss) per share	**$ 6.91**	$ 5.28	$ (3.77)
Weighted-average common shares outstanding, in millions	**296.9**	319.2	334.5
Diluted Earnings (Loss) Per Share			
Continuing operations	**$ 6.32**	$ 4.44	$ 2.98
Discontinued operations	**.50**	.77	(6.67)
Diluted earnings (loss) per share	**$ 6.82**	$ 5.21	$ (3.69)
Weighted-average diluted shares outstanding, in millions	**301.1**	323.3	341.6
Net earnings (loss) from above	**$ 2,053**	$ 1,686	$ (1,262)
Other comprehensive income (loss)			
Change in cumulative translation adjustment	**(41)**	31	(24)
Change in unrealized gain (loss) on marketable securities and cash flow hedges, net of tax benefit (expense) of $0 in 2010, $(23) in 2009, and $22 in 2008	**1**	36	(35)
Change in unamortized benefit plan costs, net of tax (expense) benefit of $(183) in 2010, $(374) in 2009 and $1,888 in 2008	**297**	561	(2,884)
Other comprehensive income (loss), net of tax	**257**	628	(2,943)
Comprehensive income (loss)	**$ 2,310**	$ 2,314	$ (4,205)

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

$ in millions	**December 31 2010**	December 31 2009
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,701**	$ 3,274
Accounts receivable, net of progress payments	**3,329**	2,859
Inventoried costs, net of progress payments	**896**	874
Current deferred tax assets	**419**	275
Prepaid expenses and other current assets	**244**	264
Assets of discontinued operations	**5,212**	5,035
Total current assets	**13,801**	12,581
Property, Plant, and Equipment		
Land and land improvements	**363**	362
Buildings and improvements	**1,363**	1,183
Machinery and other equipment	**3,972**	3,725
Capitalized software costs	**451**	394
Leasehold improvements	**608**	573
	6,757	6,237
Accumulated depreciation	**(3,712)**	(3,346)
Property, plant, and equipment, net	**3,045**	2,891
Other Assets		
Goodwill	**12,376**	12,376
Other purchased intangibles, net of accumulated amortization of $1,613 in 2010 and $1,542 in 2009	**192**	263
Pension and post-retirement plan assets	**320**	184
Non-current deferred tax assets	**721**	1,103
Miscellaneous other assets	**1,076**	1,020
Total other assets	**14,685**	14,946
Total assets	**$ 31,531**	$ 30,418
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable to banks	**$ 10**	$ 12
Current portion of long-term debt	**774**	91
Trade accounts payable	**1,573**	1,609
Accrued employees' compensation	**1,146**	1,108
Advance payments and billings in excess of costs incurred	**1,969**	1,879
Other current liabilities	**1,763**	1,251
Liabilities of discontinued operations	**2,792**	2,822
Total current liabilities	**10,027**	8,772
Long-term debt, net of current portion	**3,940**	3,908
Pension and post-retirement plan liabilities	**3,089**	3,847
Other long-term liabilities	**918**	1,204
Total liabilities	**17,974**	17,731
Commitments and Contingencies (Note 15)		
Shareholders' Equity		
Common stock, $1 par value; 800,000,000 shares authorized; issued and outstanding: 2010—290,956,752; 2009—306,865,201	**291**	307
Paid-in capital	**7,778**	8,657
Retained earnings	**8,245**	6,737
Accumulated other comprehensive loss	**(2,757)**	(3,014)
Total shareholders' equity	**13,557**	12,687
Total liabilities and shareholders' equity	**$ 31,531**	$ 30,418

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Operating Activities			
Sources of Cash—Continuing Operations			
Cash received from customers			
Progress payments	**$ 4,437**	$ 2,957	$ 1,701
Collections on billings	**23,531**	24,955	25,043
Other cash receipts	**40**	71	78
Total sources of cash—continuing operations	**28,008**	27,983	26,822
Uses of Cash—Continuing Operations			
Cash paid to suppliers and employees	**(23,759)**	(23,761)	(22,875)
Pension contributions	**(789)**	(657)	(206)
Interest paid, net of interest received	**(269)**	(257)	(263)
Income taxes paid, net of refunds received	**(1,071)**	(774)	(712)
Income taxes paid on sale of businesses		(508)	(7)
Excess tax benefits from stock-based compensation	**(22)**	(2)	(48)
Other cash payments	**(42)**	(29)	(6)
Total uses of cash—continuing operations	**(25,952)**	(25,988)	(24,117)
Cash provided by continuing operations	**2,056**	1,995	2,705
Cash provided by discontinued operations	**397**	138	506
Net cash provided by operating activities	**2,453**	2,133	3,211
Investing Activities			
Proceeds from sale of businesses, net of cash divested	**14**	1,650	175
Payments for businesses purchased		(33)	(92)
Additions to property, plant, and equipment	**(579)**	(473)	(463)
Payments for outsourcing contract costs and related software costs	**(6)**	(68)	(110)
Decrease (increase) in restricted cash	**5**	(28)	
Other investing activities, net	**(5)**	2	21
Cash (used in) provided by investing activities by continuing operations	**(571)**	1,050	(469)
Cash used in investing activities by discontinued operations	**(189)**	(184)	(157)
Net cash (used in) provided by investing activities	**(760)**	866	(626)
Financing Activities			
Net borrowings under lines of credit	**(2)**	(12)	(2)
Proceeds from issuance of long-term debt	**1,484**	843	
Payments of long-term debt	**(1,011)**	(474)	(113)
Proceeds from exercises of stock options and issuances of common stock	**142**	51	103
Dividends paid	**(545)**	(539)	(525)
Excess tax benefits from stock-based compensation	**22**	2	48
Common stock repurchases	**(1,177)**	(1,100)	(1,555)
Cash used in financing activities by continuing operations	**(1,087)**	(1,229)	(2,044)
Cash used in financing activities by discontinued operations	**(179)**		
Net cash used in financing activities	**(1,266)**	(1,229)	(2,044)
Increase in cash and cash equivalents	**427**	1,770	541
Cash and cash equivalents, beginning of year	**3,274**	1,504	963
Cash and cash equivalents, end of year	**$ 3,701**	$ 3,274	$ 1,504

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Reconciliation of Net Earnings (Loss) to Net Cash Provided by Operating Activities			
Net earnings (loss)	**$2,053**	$ 1,686	$(1,262)
Net (earnings) loss from discontinued operations, net of tax	**(134)**	(234)	2,306
Adjustments to reconcile to net cash provided by operating activities			
Depreciation	**446**	429	410
Amortization of assets	**109**	121	153
Impairment of goodwill			570
Stock-based compensation	**136**	105	118
Excess tax benefits from stock-based compensation	**(22)**	(2)	(48)
Pre-tax gain on sale of businesses	**(10)**	(446)	(66)
Charge on debt redemption	**229**		
(Increase) decrease in			
Accounts receivable, net	**(471)**	345	(81)
Inventoried costs, net	**(64)**	(133)	(9)
Prepaid expenses and other current assets	**36**	(4)	(24)
Increase (decrease) in			
Accounts payable and accruals	**70**	(133)	115
Deferred income taxes	**89**	204	160
Income taxes payable	**(26)**	65	241
Retiree benefits	**(354)**	60	(297)
Other non-cash transactions, net	**(31)**	(68)	419
Cash provided by continuing operations	**2,056**	1,995	2,705
Cash provided by discontinued operations	**397**	138	506
Net cash provided by operating activities	**$2,453**	$ 2,133	$ 3,211
Non-Cash Investing and Financing Activities			
Sale of businesses			
Liabilities assumed by purchaser		$ 167	$ 18
Purchase of businesses			
Liabilities assumed by the company			$ 20
Mandatorily redeemable convertible preferred stock converted or redeemed into common stock			$ 350
Capital expenditures accrued in accounts payable	**$ 41**	$ 58	$ 45
Capital expenditures accrued in liabilities of discontinued operations	**$ 44**	$ 47	$ 39

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Year Ended December 31		
$ in millions, except per share amounts	**2010**	2009	2008
Common Stock			
At beginning of year	**$ 307**	$ 327	$ 338
Common stock repurchased	**(20)**	(23)	(21)
Conversion of preferred stock			6
Employee stock awards and options	**4**	3	4
At end of year	**291**	307	327
Paid-in Capital			
At beginning of year	**8,657**	9,645	10,661
Common stock repurchased	**(1,143)**	(1,098)	(1,534)
Conversion of preferred stock			344
Employee stock awards and options	**264**	110	174
At end of year	**7,778**	8,657	9,645
Retained Earnings			
At beginning of year	**6,737**	5,590	7,387
Net earnings (loss)	**2,053**	1,686	(1,262)
Dividends declared	**(545)**	(539)	(532)
Other			(3)
At end of year	**8,245**	6,737	5,590
Accumulated Other Comprehensive Loss			
At beginning of year	**(3,014)**	(3,642)	(699)
Other comprehensive income (loss), net of tax	**257**	628	(2,943)
At end of year	**(2,757)**	(3,014)	(3,642)
Total shareholders' equity	**$13,557**	$12,687	$11,920
Cash dividends declared per share	**$ 1.84**	$ 1.69	$ 1.57

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Northrop Grumman Corporation and its subsidiaries (Northrop Grumman or the company) provide technologically advanced, innovative products, services, and solutions in aerospace, electronics, information systems, and technical services.

Subsequent event – Effective March 31, 2011, the company completed the spin-off to its shareholders of Huntington Ingalls Industries, Inc. (HII), which was formed to operate the business that was previously the company's Shipbuilding business (Shipbuilding). The spin-off was the culmination of the company's exploration of strategic alternatives for Shipbuilding. We believe that the separation of Shipbuilding is in the best interests of shareholders, customers, and employees by allowing both the company and Shipbuilding to more effectively pursue their respective opportunities to maximize value. As a result of the spin-off, the assets, liabilities, results of operations and cash flows for the former Shipbuilding segment have been reclassified as discontinued operations for all periods presented.

In January 2009, the company streamlined its organizational structure by reducing the number of operating segments. The four segments in continuing operations are Aerospace Systems, Electronic Systems, Information Systems, and Technical Services. Product sales are predominantly generated in the Aerospace Systems and Electronic Systems segments, while the majority of the company's service revenues are generated by the Information Systems and Technical Services segments.

Aerospace Systems is a leading developer, integrator, producer and supporter of manned and unmanned aircraft, spacecraft, high-energy laser systems, microelectronics and other systems and subsystems critical to maintaining the nation's security and leadership in technology. These systems are used, primarily by U.S. Government customers, in many different mission areas including intelligence, surveillance and reconnaissance; communications; battle management; strike operations; electronic warfare; missile defense; earth observation; space science; and space exploration.

Electronic Systems is a leader in the design, development, manufacture, and support of solutions for sensing, understanding, anticipating, and controlling the environment for our global military, civil, and commercial customers and their operations. The segment provides a variety of defense electronics and systems, airborne fire control radars, situational awareness systems, early warning systems, airspace management systems, navigation systems, communications systems, marine systems, space systems, and logistics services.

Information Systems is a leading global provider of advanced solutions for Department of Defense (DoD), national intelligence, federal civilian, state and local agencies, and commercial customers. Products and services are focused on the fields of command, control, communications, computers and intelligence; air and missile defense; airborne reconnaissance; intelligence processing; decision support systems; cybersecurity; information technology; and systems engineering and integration.

Technical Services is a provider of logistics, infrastructure, and sustainment support, while also providing a wide array of technical services, including training and simulation.

As prime contractor, principal subcontractor, partner, or preferred supplier, Northrop Grumman participates in many high-priority defense and non-defense technology programs in the U.S. and abroad. Northrop Grumman conducts most of its business with the U.S. Government, principally the DoD. The company is therefore affected by, among other things, the federal budget process. The company also conducts business with local, state, and foreign governments and generates domestic and international commercial sales.

Financial Statement Reclassification – Certain amounts in the prior year financial statements and related notes have been reclassified to conform to the current presentation of the business divestitures reported as discontinued operations (see Note 6) and the business operation realignments effective in 2009 (see Note 7).

Principles of Consolidation – The consolidated financial statements include the accounts of Northrop Grumman and its subsidiaries. All intercompany accounts, transactions, and profits among Northrop Grumman and its subsidiaries are eliminated in consolidation.

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

Revenue Recognition – The majority of the company's business is derived from long-term contracts for production of goods, and services provided to the federal government. In accounting for these contracts, the company extensively utilizes the cost-to-cost and the units-of-delivery measures of the percentage-of-completion method of accounting. Sales under cost-reimbursement contracts and construction-type contracts that provide for delivery at a low volume per year or a small number of units after a lengthy period of time over which a significant amount of costs have been incurred are accounted for using the cost-to-cost method. Under this method, sales, including estimated earned fees or profits, are recorded as costs are incurred. For most contracts, sales are calculated based on the percentage that total costs incurred bear to total estimated costs at completion. Sales under construction-type contracts that provide for delivery at a high volume per year are accounted for using the units-of-delivery method. Under this method, sales are recognized as deliveries are made to the customer generally using unit sales values for delivered units in accordance with the contract terms. The company estimates profit as the difference between total estimated revenue and total estimated cost of a contract and recognizes that profit over the life of the contract based on deliveries or as computed on the basis of the estimated final average unit costs plus profit. The company classifies contract revenues as product sales or service revenues depending upon the predominant attributes of the relevant underlying contracts.

Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined and estimated. Amounts representing contract change orders, claims, requests for equitable adjustment, or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in unbilled accounts receivable or inventoried costs, with any remaining amount reflected in liabilities. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been used since contract inception. A significant change in an estimate on one or more contracts could have a material effect on the company's consolidated financial position or results of operations, and where such changes occur, separate disclosure is made of the nature, underlying conditions and financial impact of the change.

Revenue under contracts to provide services to non-federal government customers are generally recognized when services are performed. Service contracts include operations and maintenance contracts, and outsourcing-type arrangements, primarily in the Technical Services and Information Systems segments. Revenue under such contracts is generally recognized on a straight-line basis over the period of contract performance, unless evidence suggests that the revenue is earned or the obligations are fulfilled in a different pattern. Costs incurred under these service contracts are expensed as incurred, except that direct and incremental set-up costs are capitalized and amortized over the life of the agreement (see *Outsourcing Contract Costs* below). Operating profit related to such service contracts may fluctuate from period to period, particularly in the earlier phases of the contract. For contracts that include more than one type of product or service, revenue recognition includes the proper identification of separate units of accounting and the allocation of revenue across all elements based on relative fair values.

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. For most components of the company, these costs are allocated to contracts in progress on a systematic basis and contract performance factors include this cost component as an element of cost. General and administrative expenses primarily relate to segment operations.

Research and Development – Company-sponsored research and development activities primarily include independent research and development (IR&D) efforts related to government programs. IR&D expenses are included in general and administrative expenses and are generally allocated to government contracts. Company-sponsored IR&D expenses totaled $580 million, $588 million, and $543 million, in 2010, 2009, and 2008, respectively. Expenses for research and development sponsored by the customer are charged directly to the related contracts.

Restructuring Costs – In accordance with the regulations that govern the cost accounting requirements for government contracts, certain costs incurred for consolidation or restructuring activities that demonstrate savings in excess of the cost to implement those actions can be deferred and amortized as allowable and allocable costs on government contracts. Such deferred costs are not expected to have a material adverse effect on the company's consolidated financial position or results of operations.

Product Warranty Costs – The company provides certain product warranties that require repair or replacement of non-conforming items for a specified period of time often subject to a specified monetary coverage limit. Substantially all of the company's product warranties are provided under government contracts, the costs of which are immaterial and are accounted for using the percentage-of-completion method of accounting. Accrued product warranty costs for the remainder of our products (which are almost entirely commercial products) are not material.

Environmental Costs – Environmental liabilities are accrued when the company determines such amounts are reasonably estimable, and management has determined that it is probable that a liability has been incurred. When only a range of amounts is established and no amount within the range is more probable than another, the minimum amount in the range is recorded. Environmental liabilities are recorded on an undiscounted basis. At sites involving multiple parties, the company accrues environmental liabilities based upon its expected share of liability, taking into account the financial viability of other jointly liable parties. Environmental expenditures are expensed or capitalized as appropriate. Capitalized expenditures relate to long-lived improvements in currently operating facilities. The company does not anticipate and record insurance recoveries before collection is probable. At December 31, 2010, and 2009, the company did not have any accrued receivables related to insurance reimbursements.

Fair Value of Financial Instruments – The company utilizes fair value measurement guidance prescribed by GAAP to value its financial instruments. The guidance includes a definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements.

The valuation techniques utilized are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable.

Derivative Financial Instruments – Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value. Changes in the fair value of derivative financial instruments that qualify and are designated as fair value hedges are required to be recorded in income from continuing operations, while the effective portion of the changes in the fair value of derivative financial instruments that qualify and are designated as cash flow hedges are recorded in other comprehensive income. The company may use derivative financial instruments to manage its exposure to interest rate and foreign currency exchange risks and to balance its fixed and variable rate long-term debt portfolio. The company does not use derivative financial instruments for trading or speculative purposes, nor does it use leveraged financial instruments. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for counterparties and through periodic settlements of positions.

For derivative financial instruments not designated as hedging instruments, gains or losses resulting from changes in the fair value are reported in Other, net in the consolidated statements of operations.

Income Taxes – Provisions for federal, foreign, state, and local income taxes are calculated on reported financial statement pre-tax income based on current tax law and include the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. If a tax position does not meet the minimum statutory threshold to avoid payment of penalties, the company recognizes an expense for the amount of the penalty in the period the tax position is claimed in the tax return of the company. The company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are recognized as a component of income tax expense. State and local income and franchise tax provisions are allocable to contracts in process and, accordingly, are included in general and administrative expenses.

The company makes a comprehensive review of its portfolio of uncertain tax positions regularly. 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 or claim, that has not been reflected in measuring income tax expense for financial reporting purposes. Until these positions are sustained by the taxing authorities, the company does not recognize the tax benefits resulting from such positions and reports the tax effects as a liability for uncertain tax positions in its consolidated statements of financial position.

Cash and cash equivalents – For cash and cash equivalents, the carrying amounts approximate fair value due to the short-term nature of these items. Cash and cash equivalents include short-term interest-earning debt instruments that mature in three months or less from the date purchased.

Marketable Securities – At December 31, 2010, and 2009, substantially all of the company's investments in marketable securities were classified as available-for-sale or trading. For available-for-sale securities, any unrealized gains and losses are reported as a separate component of shareholders' equity. Unrealized gains and losses on trading securities are included in Other, net in the consolidated statements of operations. Investments in marketable securities are recorded at fair value.

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

Inventoried Costs – Inventoried costs primarily relate to work in process under fixed-price, units-of-delivery and fixed-priced-incentive contracts using labor dollars as the basis of the percentage-of-completion calculation. These costs represent accumulated contract costs less the portion of such costs allocated to delivered items. Accumulated contract costs include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, allowable general and administrative expenses. According to the provisions of U.S. Government contracts, the customer asserts title to, or a security interest in, inventories related to such contracts as a result of contract advances, performance-based payments, and progress payments. In accordance with industry practice, inventoried costs are classified as a current asset and include amounts related to contracts having production cycles longer than one year. Product inventory primarily consists of raw materials and is stated at the lower of cost or market, generally using the average cost method. General corporate expenses and IR&D allocable to commercial contracts are expensed as incurred.

Outsourcing Contract Costs – Costs on outsourcing contracts, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed over the contract life. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition and transition/set-up. The primary types of costs that may be capitalized include labor and related fringe benefits, subcontractor costs, and travel costs. The company capitalized $4 million, $57 million, and $111 million and amortized $39 million, $46 million, and $52 million of such costs in 2010, 2009 and 2008, respectively. At December 31, 2010, and 2009, respectively, deferred outsourcing contract costs of $239 million and $274 million were included in miscellaneous other assets.

Depreciable Properties – Property, plant, and equipment owned by the company are depreciated over the estimated useful lives of individual assets. Most of these assets are depreciated using declining-balance methods, with the remainder using the straight-line method, with the following lives:

	Years
Land improvements	2-45
Buildings and improvements	2-45
Machinery and other equipment	2-20
Capitalized software costs	3-5
Leasehold improvements	Length of lease

Leases – The company uses its incremental borrowing rate in the assessment of lease classification as capital or operating and defines the initial lease term to include renewal options determined to be reasonably assured. The company conducts operations primarily under operating leases.

Many of the company's real property lease agreements contain incentives for tenant improvements, rent holidays, or rent escalation clauses. For tenant improvement incentives, the company records a deferred rent liability and amortizes the deferred rent over the term of the lease as a reduction to rent expense. For rent holidays and rent escalation clauses during the lease term, the company records minimum rental expenses on a straight-line basis over the term of the lease. For purposes of recognizing lease incentives, the company uses the date of initial possession as the commencement date, which is generally when the company is given the right of access to the space and begins to make improvements in preparation of intended use.

Goodwill and Other Purchased Intangible Assets – The company performs impairment tests for goodwill as of November 30th of each year, or when evidence of potential impairment exists. When it is determined that impairment has occurred, a charge to operations is recorded. Goodwill and other purchased intangible asset balances are included in the identifiable assets of the business segment to which they have been assigned. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective business segments' operating income. Purchased intangible assets are amortized on a straight-line basis over their estimated useful lives (see Note 11).

Litigation, Commitments, and Contingencies – Amounts associated with litigation, commitments, and contingencies are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Retirement Benefits – The company sponsors various pension plans covering substantially all employees. The company also provides post-retirement benefit plans other than pensions, consisting principally of health care and life insurance benefits, to eligible retirees and qualifying dependents. The liabilities, unamortized benefit plan costs and annual income or expense of the company's pension and other post-retirement benefit plans are determined using methodologies that involve several actuarial assumptions, the most significant of which are the discount rate, the long-term rate of asset return (based on the market-related value of assets), and the medical cost experience trend rate (rate of growth for medical costs). Unamortized benefit plan costs consist primarily of accumulated net after-tax actuarial losses. Net actuarial gains or losses are re-determined annually and principally arise from gains or losses on plan assets due to variations in the fair market value of the underlying assets and changes in the benefit obligation due to changes in actuarial assumptions. Net actuarial gains or losses are amortized to expense in future periods when they exceed ten percent of the greater of the plan assets or projected benefit obligations by benefit plan. The excess of gains or losses over the ten percent threshold are subject to amortization over the average future service period of employees of approximately ten years. The fair values of plan assets are determined based on prevailing market prices or estimated fair value for investments with no available quoted prices. Not all net periodic pension income or expense is recognized in net earnings in the year incurred because it is allocated to production as product costs, and a portion remains in inventory at the end of a reporting period. The company's funding policy for pension plans is to contribute, at a minimum, the statutorily required amount to an irrevocable trust.

Stock Compensation – All of the company's stock compensation plans are considered equity plans, and compensation expense recognized is net of estimated forfeitures over the vesting period. The company issues stock options and stock awards, in the form of restricted performance stock rights and restricted stock rights, under its existing plans. The fair value of stock option grants are estimated on the date of grant using a Black-Scholes option-pricing model and expensed on a straight-line basis over the vesting period of the options, which is generally three to four years. The fair value of stock awards is determined based on the closing market price of the company's common stock on the grant date and at each reporting date the number of shares is adjusted to equal the number ultimately expected to vest. Compensation expense for stock awards is expensed over the vesting period, usually three to five years.

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

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

	December 31	
$ in millions	**2010**	2009
Cumulative translation adjustment		$ 41
Net unrealized gain on marketable securities and cash flow hedges, net of tax expense of $3 as of December 31, 2010, and 2009	**$ 5**	4
Unamortized benefit plan costs, net of tax benefit of $1,801 as of December 31, 2010, and $1,984 as of December 31, 2009	**(2,762)**	(3,059)
Total accumulated other comprehensive loss	**$(2,757)**	$ (3,014)

2. ACCOUNTING STANDARDS UPDATES

Accounting Standards Updates Not Yet Effective
Accounting Standards Updates not effective until after December 31, 2010, are not expected to have a significant effect on the company's consolidated financial position or results of operations.

3. DIVIDENDS ON COMMON STOCK AND CONVERSION OF PREFERRED STOCK

Dividends on Common Stock – In May 2010, the company's board of directors approved an increase to the quarterly common stock dividend, from $0.43 per share to $0.47 per share, for stockholders of record as of June 1, 2010.

In May 2009, the company's board of directors approved an increase to the quarterly common stock dividend, from $0.40 per share to $0.43 per share, for stockholders of record as of June 1, 2009.

In April 2008, the company's board of directors approved an increase to the quarterly common stock dividend, from $0.37 per share to $0.40 per share, for stockholders of record as of June 2, 2008.

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 stockholders. All remaining unconverted 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.

4. EARNINGS PER SHARE FROM CONTINUING OPERATIONS

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

Diluted Earnings Per Share from Continuing Operations – Diluted earnings per share from continuing operations include the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans. The dilutive effect of these securities totaled 4.2 million, 4.1 million and 7.1 million shares for the years ended December 31, 2010, 2009, and 2008.

The weighted-average diluted shares outstanding for the years ended December 31, 2010, 2009, and 2008, exclude anti-dilutive stock options to purchase approximately 2.8 million shares, 8.1 million shares, and 2.1 million shares, respectively, because such options have exercise prices in excess of the average market price of the company's common stock during the year.

Share Repurchases – The table below summarizes the company's share repurchases beginning January 1, 2008:

Authorization Date	Amount Authorized (In millions)	Average Price Per Share(2)	Total Shares Retired (In millions)	Date Completed	Shares Repurchased (In millions) 2010	2009	2008
December 19, 2007	$ 3,600	$ 59.82	60.2	August 2010	**15.7**	23.1	21.4
June 16, 2010(1)	2,000	59.95	4.0		**4.0**		
					19.7	23.1	21.4

(1) On June 16, 2010, the company's board of directors authorized a share repurchase program of up to $2 billion of the company's common stock. As of the end of the fourth quarter 2010, the company had $1.8 billion remaining under this authorization for share repurchases.

(2) Includes commissions paid and calculated as the average price per share since the repurchase program authorization date.

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.

5. BUSINESS ACQUISITIONS

2009 – In April 2009, the company acquired Sonoma Photonics, Inc., as well as assets from Swift Engineering's Killer Bee Unmanned Air Systems product line for an aggregate amount of approximately $33 million in cash. The operating results of these businesses are reported in the Aerospace Systems segment from the date of acquisition. The assets, liabilities, and results of operations of these businesses were not material to the company's consolidated financial position or results of operations, and thus pro-forma financial information is not presented.

2008 – In October 2008, the company acquired 3001 International, Inc. (3001 Inc.) for approximately $92 million in cash. 3001 Inc. provides geospatial data production and analysis, including airborne imaging, surveying, mapping and geographic information systems for U.S. and international government intelligence, defense and civilian customers. The operating results of 3001 Inc. are reported in the Information Systems segment from the date of acquisition. The assets, liabilities, and results of operations of 3001 Inc. are not material to the company's consolidated financial position or results of operations, and thus pro-forma information is not presented.

6. BUSINESS DISPOSITIONS

2009 – In December 2009, the company sold ASD for $1.65 billion in cash to an investor group led by General Atlantic, LLC, and affiliates of Kohlberg Kravis Roberts & Co. L.P., and recognized a gain of $15 million, net of taxes. ASD was a business unit comprised of the assets and liabilities of TASC, Inc., its wholly owned subsidiary TASC Services Corporation, and certain contracts carved out from other Northrop Grumman businesses also in Information Systems that provide systems engineering technical assistance (SETA) and other analysis and advisory services. Sales for this business in the years ended December 31, 2009, and 2008, were approximately $1.5 billion, and $1.6 billion, respectively. The assets, liabilities and operating results of this business unit are reported as discontinued operations in the consolidated statements of operations for all periods presented.

2008 – In April 2008, the company sold its Electro-Optical Systems (EOS) business for $175 million in cash to L-3 Communications Corporation and recognized a gain of $19 million, net of taxes. EOS, formerly a part of the Electronic Systems segment, produces night vision and applied optics products. Sales for this business through April 2008 were approximately $53 million. The assets, liabilities and operating results of this business are reported as discontinued operations in the consolidated statements of operations for all periods presented.

Spin-off of Shipbuilding business – As previously discussed in Note 1, the company completed the spin-off to its shareholders of HII effective March 31, 2011. HII was formed to operate the business that was previously the company's Shipbuilding segment prior to the spin-off. The company made a pro rata distribution to its shareholders of one share of HII common stock for every six shares of the company's common stock held on the record date of March 30, 2011, or 48.8 million shares of HII common stock. There was no gain or loss recognized by the company as a result of the spin-off transaction. In connection with the spin-off, HII issued $1,200 million in senior notes and entered into a credit facility with third-party lenders that includes a $650 million revolver and a $575 million term loan. HII used a portion of the proceeds of the debt and credit facility to fund a $1,429 million cash contribution to the company.

Prior to the completion of the spin-off, the company and HII entered into a Separation and Distribution Agreement dated March 29, 2011 and several other agreements that will govern the post-separation relationship. These agreements generally provide that each party will be responsible for its respective assets, liabilities and obligations following the spin-off, including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities. The agreements also describe the company's future commitments to provide HII with certain transition services for up to one year and the costs incurred for such services that will be reimbursed by HII.

In connection with the spin-off, the company incurred $28 million and $4 million of non-deductible transaction costs for the years ended December 31, 2010 and 2009, respectively, which have been included in discontinued operations.

Discontinued Operations – Earnings (loss) for the businesses classified within discontinued operations (primarily the Shipbuilding business and ASD discussed above) were as follows:

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Sales and service revenues	**$6,711**	$7,740	$ 7,761
Earnings (loss) from discontinued operations	**229**	345	(2,216)
Income tax expense	**(95)**	(111)	(90)
Earnings (loss), net of tax	**$ 134**	$ 234	$ (2,306)
Gain on divestitures	**10**	446	66
Income tax benefit (expense)	**5**	(428)	(40)
Gain from discontinued operations, net of tax	**$ 15**	$ 18	$ 26
Earnings (loss) from discontinued operations, net of tax	**$ 149**	$ 252	$ (2,280)

The loss in 2008 included a Shipbuilding non-cash goodwill impairment charge of $2,490 million due to adverse equity market conditions that caused a decrease in market multiples and our stock price. Tax rates on discontinued operations vary from the company's effective tax rate generally due to the non-deductibility of goodwill for tax purposes and the effects, if any, of capital loss carryforwards.

The major classes of assets and liabilities included in discontinued operations for the Shipbuilding business are presented in the following table:

$ in millions	**December 31, 2010**	December 31, 2009
Assets		
Current assets	**$ 1,315**	$ 1,162
Property, plant, and equipment, net	**1,997**	1,977
Goodwill	**1,141**	1,141
Other assets	**759**	755
Total assets of discontinued operations	**$ 5,212**	$ 5,035
Liabilities		
Trade accounts payable	**$ 274**	$ 312
Other current liabilities	**955**	868
Current liabilities	**1,229**	1,180
Long-term liabilities	**1,563**	1,642
Total liabilities of discontinued operations	**$ 2,792**	$ 2,822

7. SEGMENT INFORMATION

At December 31, 2010, the company was aligned into four reportable segments: Aerospace Systems, Electronic Systems, Information Systems, and Technical Services.

The company, from time to time, acquires or disposes of businesses, and realigns contracts, programs or business areas among and within its operating segments that possess similar customers, expertise, and capabilities. Internal realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services.

Segment Realignments – In January 2010, the company transferred its internal information technology services unit from the Information Systems segment to the company's corporate shared services group. The intersegment sales and operating income for this unit that were previously recognized in the Information Systems segment are immaterial and have been eliminated for all periods presented.

In January 2009, the company streamlined its organizational structure by reducing the number of operating segments. The four segments in continuing operations are Aerospace Systems, which combines the former Integrated Systems and Space Technology segments; Electronic Systems; Information Systems, which combines the former Information Technology and Mission Systems segments; and Technical Services. Creation of the Aerospace Systems and Information Systems segments is intended to strengthen alignment with customers, improve the company's ability to execute on programs and win new business, and enhance cost competitiveness. Product sales are predominantly generated in the Aerospace Systems and Electronic Systems segments, while the majority of the company's service revenues are generated by the Information Systems and Technical Services segments.

During the first quarter of 2009, the company realigned certain logistics, services, and technical support programs and transferred assets from the Information Systems and Electronic Systems segments to the Technical Services segment. This realignment is intended to strengthen the company's core capability in aircraft and electronics maintenance, repair and overhaul, life cycle optimization, and training and simulation services.

Sales and segment operating income in the tables below have been revised to reflect the above realignments for all periods presented.

During the first quarter of 2009, the company transferred certain optics and laser programs from the Information Systems segment to the Aerospace Systems segment. As the operating results of this business were not considered material, the prior year sales and segment operating income were not reclassified to reflect this business transfer.

U.S. Government Sales – Revenue from the U.S. Government (which includes Foreign Military Sales) includes revenue from contracts for which Northrop Grumman is the prime contractor as well as those for which the company is a subcontractor and the ultimate customer is the U.S. Government. All of the company's segments derive substantial revenue from the U.S. Government. Sales to the U.S. Government amounted to approximately $25.5 billion, $25.0 billion, and $23.3 billion, or 90.6 percent, 90.3 percent, and 88.7 percent, of total revenue for the years ended December 31, 2010, 2009, and 2008, respectively.

Foreign Sales – Direct foreign sales amounted to approximately $1.6 billion, $1.6 billion, and $1.7 billion, or 5.7 percent, 5.8 percent, and 6.5 percent of total revenue for the years ended December 31, 2010, 2009, and 2008, respectively.

Discontinued Operations – The company's discontinued operations are excluded from all of the data elements in the following tables, except for assets by segment.

Assets – Substantially all of the company's assets are located or maintained in the U.S.

Results of Operations By Segment

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Sales and Service Revenues			
Aerospace Systems	**$10,910**	$ 10,419	$ 9,825
Electronic Systems	**7,613**	7,671	7,048
Information Systems	**8,395**	8,536	8,174
Technical Services	**3,230**	2,776	2,535
Intersegment eliminations	**(2,005)**	(1,752)	(1,331)
Total sales and service revenues	**$28,143**	$27,650	$26,251

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Operating Income			
Aerospace Systems	**$1,256**	$ 1,071	$ 416
Electronic Systems	**1,023**	969	947
Information Systems	**756**	624	626
Technical Services	**206**	161	144
Intersegment eliminations	**(231)**	(190)	(118)
Total Segment Operating Income	**3,010**	2,635	2,015
Non-segment factors affecting operating income			
Unallocated corporate expenses	**(182)**	(100)	(141)
Net pension adjustment	**10**	(237)	272
Royalty income adjustment	**(11)**	(24)	(70)
Total operating income	**$2,827**	$ 2,274	$2,076

Goodwill Impairment Charge – The total segment operating loss for the year ended December 31, 2008, reflects a goodwill impairment charge of $570 million at Aerospace Systems. The impairment charge was primarily due to adverse equity market conditions that caused a decrease in market multiples and the company's stock price.

Unallocated Corporate Expenses – Unallocated corporate expenses generally 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 (FAR), 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 GAAP 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. The royalty income adjustment for the year ended December 31, 2008, includes $60 million related to patent infringement settlements at Electronic Systems.

Intersegment Sales and Margin

To encourage commerce between operating units, sales between segments are recorded at values that include a hypothetical margin for the performing segment based on that segment's estimated margin rate for external sales.

Such hypothetical margins are eliminated in consolidation. Intersegment sales and operating income were as follows:

$ in millions	2010 Sales	2010 Operating Income	2009 Sales	2009 Operating Income	2008 Sales	2008 Operating Income
Intersegment sales and operating income						
Aerospace Systems	**$ 132**	**$ 13**	$ 121	$ 13	$ 129	$ 8
Electronic Systems	**684**	**118**	650	103	482	63
Information Systems	**623**	**61**	474	44	354	28
Technical Services	**566**	**39**	507	30	366	19
Total intersegment sales and operating income	**$2,005**	**$ 231**	$1,752	$ 190	$1,331	$ 118

Other Financial Information

$ in millions	December 31 2010	2009	2008
Assets			
Aerospace Systems	**$ 6,548**	$ 6,291	$ 6,199
Electronic Systems	**4,893**	4,950	5,024
Information Systems	**7,467**	7,422	9,029
Technical Services	**1,381**	1,295	1,184
Segment assets	**20,289**	19,958	21,436
Corporate	**6,030**	5,425	4,074
Assets of discontinued operations	**5,212**	5,035	4,687
Total assets	**$31,531**	$ 30,418	$30,197

Corporate assets principally consists of cash and cash equivalents and deferred tax assets.

$ in millions	Year Ended December 31 2010	2009	2008
Capital Expenditures			
Aerospace Systems	**$ 195**	$ 211	$224
Electronic Systems	**176**	168	148
Information Systems	**31**	50	54
Technical Services	**5**	3	4
Corporate	**172**	41	33
Total capital expenditures from continuing operations	**$ 579**	$ 473	$463

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Depreciation and Amortization			
Aerospace Systems	**$237**	$ 238	$ 238
Electronic Systems	**150**	140	149
Information Systems	**133**	138	145
Technical Services	**5**	8	8
Corporate	**30**	26	23
Total depreciation and amortization from continuing operations	**$ 555**	$550	$563

The depreciation and amortization expense above includes amortization of purchased intangible assets as well as amortization of deferred and other outsourcing costs.

8. ACCOUNTS RECEIVABLE, NET

Unbilled amounts represent sales for which billings have not been presented to customers at year-end. These amounts are usually billed and collected within one year. Progress payments are received on a number of firm fixed-price contracts. Unbilled amounts are presented net of progress payments of $5.7 billion and $5.4 billion at December 31, 2010, and 2009, respectively.

Accounts receivable at December 31, 2010, are expected to be collected in 2011, except for approximately $60 million due in 2012 and $23 million due in 2013 and later.

The company does not believe it has significant exposure to credit risk as accounts receivable and the related unbilled amounts are primarily due from the U.S. Government. The company applied the GAAP guidance related to "*Accounts Receivable – Credit Quality of Financing Receivables*" on a prospective basis. Accordingly, accruals for potential overhead rate adjustments and other costs that were previously reported as an allowance for doubtful amounts have been reclassified to other current liabilities at December 31, 2010.

Accounts receivable consisted of the following:

	December 31	
$ in millions	**2010**	2009
Due From U.S. Government		
Amounts billed	**$ 900**	$ 837
Recoverable costs and accrued profit on progress completed – unbilled	**1,718**	1,414
	2,618	2,251
Due From Other Customers		
Amounts billed	**280**	308
Recoverable costs and accrued profit on progress completed – unbilled	**458**	341
	738	649
Total accounts receivable	**3,356**	2,900
Allowance for doubtful accounts	**(27)**	(41)
Total accounts receivable, net	**$3,329**	$2,859

9. INVENTORIED COSTS, NET

Inventoried costs consisted of the following:

	December 31	
$ in millions	**2010**	2009
Production costs of contracts in process	**$1,521**	$ 1,648
General and administrative expenses	**190**	160
	1,711	1,808
Progress payments received	**(962)**	(1,098)
	749	710
Product inventory	**147**	164
Total inventoried costs, net	**$ 896**	$ 874

10. INCOME TAXES

The company's effective tax rate on earnings from continuing operations for the year ended December 31, 2010 was 19.5 percent, as compared with 30.7 percent and 34.1 percent in 2009 and 2008, respectively (excluding for 2008 the non-cash, non-deductible goodwill impairment charge of $570 million at Aerospace Systems). The company's effective tax rates reflect tax credits, manufacturing deductions and the impact of settlements with the Internal Revenue Service (IRS).

In 2010, the company received final approval from the IRS and the U.S. Congressional Joint Committee on Taxation (Joint Committee) of the IRS' examination of the company's tax returns for the years 2004 through 2006. As a result of the settlement, the company recognized net tax benefits of $298 million (of which $66 million was in cash), which were recorded as a reduction to the company's provision for income taxes.

During 2009, the company reached a final settlement with the IRS regarding its audit of the company's tax returns for the years ended December 31, 2001 through 2003 and recognized $75 million of net benefit upon settlement, including $20 million of interest. During 2008, the company reached a final settlement with the IRS regarding its audit of the TRW tax returns for the years ended 1999 through 2002 and recognized $35 million of benefit upon settlement, including $4 million of interest.

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

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Income Taxes on Continuing Operations			
Currently payable			
Federal income taxes	**$394**	$ 390	$ 704
Foreign income taxes	**11**	34	35
Total federal and foreign income taxes currently payable	**405**	424	739
Change in deferred federal and foreign income taxes	**57**	212	84
Total federal and foreign income taxes	**$462**	$636	$ 823

The geographic source of earnings from continuing operations before income taxes is as follows:

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Domestic income	**$2,319**	$1,944	$1,739
Foreign income	**47**	126	102
Earnings from continuing operations before income taxes	**$2,366**	$2,070	$1,841

Income tax expense differs from the amount computed by multiplying the statutory federal income tax rate times the earnings (loss) from continuing operations before income taxes due to the following:

	Year Ended December 31		
$ in millions	**2010**	2009	2008
Income tax expense on continuing operations at statutory rate	**$ 828**	$725	$644
Goodwill impairment			200
Manufacturing deduction	**(33)**	(18)	(17)
Research tax credit	**(12)**	(15)	(12)
Settlement of IRS appeals cases, net of additional uncertain tax position accruals	**(298)**	(77)	(33)
Other, net	**(23)**	21	41
Total federal and foreign income taxes	**$ 462**	$636	$823

Uncertain Tax Positions – In 2010, the company reached a final settlement with the IRS and Joint Committee with respect to the IRS' examination of the company's tax returns for the years 2004 through 2006. As a result of this settlement, the company reduced its liability for uncertain tax positions, including previously accrued interest, by $311 million, which was recorded as a reduction to the company's effective tax rate.

In 2009, the company reached a final settlement agreement with the IRS and Joint Committee with respect to the IRS' examination of the company's tax returns for the years 2001 through 2003. As a result of this settlement, the company reduced its liability for uncertain tax positions by $60 million, which was recorded as a reduction to the company's effective tax rate.

In 2008, the company reached a final settlement agreement with the IRS and Joint Committee with respect to the IRS' audit of the TRW tax returns for the years 1999 through 2002. As a result of this settlement, the company reduced its liability for uncertain tax positions by $126 million (including accrued interest of $44 million), $95 million of which was recorded as a reduction of goodwill.

As of December 31, 2010, the estimated value of the company's uncertain tax positions which are more-likely-than-not to be sustained on examination was a liability of $137 million which includes accrued interest of $11 million. This liability is included in other current liabilities and other long-term liabilities in the consolidated statements of financial position. Assuming sustainment of these positions by the taxing authorities, the reversal of the amounts accrued would reduce the company's effective tax rate.

Unrecognized Tax Benefits – Unrecognized tax benefits represent the gross value of the company's tax positions that have not been reflected in the consolidated statements of operations and includes the value of the company's recorded uncertain tax positions. If the income tax benefits from these tax positions are ultimately realized, such realization would affect the company's effective tax rate.

The change in unrecognized tax benefits during 2010 and 2009, excluding interest, is as follows:

	December 31		
$ in millions	**2010**	2009	2008
Unrecognized tax benefits at beginning of the year	**$ 429**	$416	$488
Additions based on tax positions related to the current year	**19**	12	5
Additions for tax positions of prior years	**4**	61	15
Statute expiration			(9)
Settlements	**(326)**	(60)	(83)
Net change in unrecognized tax benefits	**(303)**	13	(72)
Unrecognized tax benefits at end of the year	**$ 126**	$429	$416

Although the company believes that it has adequately provided for all of its tax positions, amounts asserted by taxing authorities in future years could be greater than the company's accrued positions. Accordingly, additional provisions on income tax related matters could be recorded in the future due to revised estimates, settlement or other resolution of the underlying tax matters. In addition, open tax years related to state and foreign jurisdictions remain subject to examination but are not considered material. The IRS is currently conducting an examination of the company's tax returns for the years 2007 through 2009.

During the years ended December 31, 2010, 2009, and 2008, the company recorded approximately $88 million, $6 million, and $(29) million of net interest income (expense), respectively, within its federal and foreign, and state income tax provisions.

Deferred Income Taxes – Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax purposes. Such amounts are classified in the consolidated statements of financial position as current or non-current deferred tax assets or liabilities based upon the classification of the related assets and liabilities.

The tax effects of significant temporary differences and carryforwards that gave rise to year-end deferred federal, state and foreign tax balances, as presented in the consolidated statements of financial position, are as follows:

	December 31	
$ in millions	**2010**	2009
Deferred Tax Assets		
Retirement benefits	**$1,337**	$1,562
Provisions for accrued liabilities	**708**	719
Stock-based compensation	**91**	72
Other	**24**	69
Gross deferred tax assets	**2,160**	2,422
Less valuation allowance		
Net deferred tax assets	**2,160**	2,422
Deferred Tax Liabilities		
Goodwill amortization	**603**	528
Depreciation and amortization	**264**	324
Purchased intangibles	**139**	184
Contract accounting differences	**14**	8
Gross deferred tax liabilities	**1,020**	1,044
Total net deferred tax assets	**$ 1,140**	$ 1,378

Net deferred tax assets (liabilities) as presented in the consolidated statements of financial position are as follows:

	December 31	
$ in millions	**2010**	2009
Net current deferred tax assets	**$ 419**	$ 275
Net non-current deferred tax assets	**721**	$ 1,103
Total net deferred tax assets	**$1,140**	$ 1,378

Foreign Income – As of December 31, 2010, the company had approximately $668 million of accumulated undistributed earnings generated by its foreign subsidiaries. No deferred tax liability has been recorded on these earnings since the company intends to permanently reinvest these earnings, thereby indefinitely postponing their remittance. Should these earnings be distributed in the form of dividends or otherwise, the distributions would be subject to U.S. federal income tax at the statutory rate of 35 percent, less foreign tax credits available to offset such distributions, if any. In addition, such distributions would be subject to withholding taxes in the various tax jurisdictions.

11. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

Goodwill and other purchased intangible assets are included in the identifiable assets of the segment to which they have been assigned. Impairment tests are performed at least annually and more often as circumstances require. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective segment's operating income. The annual impairment test for all segments was performed as of November 30, 2010, with no indication of impairment. In performing the goodwill impairment tests, the company uses a discounted cash flow approach corroborated by comparative market multiples, where appropriate, to determine the fair value of its businesses. Accumulated goodwill impairment losses at December 31, 2010, and 2009, totaled $570 million at the Aerospace Systems segment.

The changes in the carrying amounts of goodwill during 2009 were as follows:

$ in millions	**Aerospace Systems**	**Electronic Systems**	**Information Systems**	**Technical Services**	**Total**
Balance as of January 1, 2009	$ 3,748	$ 2,428	$ 5,390	$ 802	$ 12,368
Goodwill transferred due to segment realignment	41	(26)	(138)	123	–
Goodwill acquired	5				5
Other	7		(4)		3
Balance as of December 31, 2009 and 2010	**$ 3,801**	**$ 2,402**	**$ 5,248**	**$ 925**	**$ 12,376**

Segment Realignments – As discussed in Note 7, in January 2009, the company realigned certain logistics, services, and technical support programs and transferred assets from the Information Systems and Electronic Systems segments to the Technical Services segment. As a result of this realignment, goodwill of approximately $123 million was reallocated among these segments. Additionally during the first quarter of 2009, the company transferred certain optics and laser programs from the Information Systems segment to the Aerospace Systems segment, resulting in the reallocation of goodwill of approximately $41 million.

Purchased Intangible Assets

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

	December 31, 2010			December 31, 2009		
$ in millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	**$ 1,705**	**$ (1,531)**	**$ 174**	$ 1,705	$ (1,464)	$ 241
Other purchased intangibles	**100**	**(82)**	**18**	100	(78)	22
Total	**$ 1,805**	**$ (1,613)**	**$ 192**	$ 1,805	$ (1,542)	$ 263

The company's purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an original aggregate weighted-average period of 17 years. Aggregate amortization expense for 2010, 2009, and 2008, was $71 million, $74 million, and $81 million, respectively.

The table below shows expected amortization for purchased intangibles as of December 31, 2010, for each of the next five years:

$ in millions	
Year ending December 31	
2011	$ 38
2012	36
2013	29
2014	16
2015	15

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments in Marketable Securities – The company holds a portfolio of marketable securities, primarily consisting of equity securities that are classified as either trading or available-for-sale and can be liquidated without restriction. These assets are recorded at fair value, substantially all of which are based upon quoted market prices for identical instruments in active markets (Level 1 inputs). As of December 31, 2010, and 2009, respectively, there were marketable equity securities of $68 million and $58 million included in prepaid expenses and other current assets and $262 million and $233 million of marketable equity securities included in miscellaneous other assets in the consolidated statements of financial position.

Derivative Financial Instruments and Hedging Activities – The company utilizes derivative financial instruments in order to manage exposure to interest rate risk and foreign currency exchange rate risk. The company does not use derivative financial instruments for trading or speculative purposes, nor does it use leveraged financial instruments. Interest rate swap agreements utilize floating interest rates as an offset to the fixed-rate characteristics of certain long-term debt instruments. Foreign currency forward contracts are used to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies.

Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value, substantially all of which are based on active or inactive markets for identical of similar instruments or model-derived valuations whose inputs are observable (Level 2 inputs). Where model-derived valuations are appropriate, the company utilizes the income approach to determine fair value and uses the applicable London Interbank Offered Rate (LIBOR) swap rate as the discount rate. Changes in the fair value of derivative financial instruments that qualify and are designated as fair value hedges are recorded in earnings from continuing operations, while the effective portion of the changes in the fair value of derivative financial instruments that qualify and are designated as cash flow hedges are recorded in other comprehensive income. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for counterparties and through periodic settlements of positions.

For derivative financial instruments not designated as hedging instruments as well as the ineffective portion of cash flow hedges, gains or losses resulting from changes in the fair value are reported in Other, net in the consolidated statements of operations. Unrealized gains or losses on cash flow hedges are reclassified from other comprehensive income to earnings from continuing operations upon the recognition of the underlying transactions.

As of December 31, 2010, an interest rate swap with a notional value of $200 million, and foreign currency purchase and sale forward contract agreements with notional values of $40 million and $86 million, respectively, were designated for hedge accounting. The remaining notional values outstanding at December 31, 2010, under foreign currency purchase and sale forward contracts of $8 million and $75 million, respectively, were not designated for hedge accounting.

As of December 31, 2009, an interest rate swap with a notional value of $200 million, and foreign currency purchase and sale forward contract agreements with notional values of $77 million and $151 million, respectively, were designated as hedging instruments. The remaining notional values outstanding at December 31, 2009, under foreign currency purchase and sale forward contracts of $14 million and $73 million, respectively, were not designated for hedge accounting.

The derivative fair values and related unrealized gains and losses at December 31, 2010, and December 31, 2009, were not material.

There were no material transfers of financial instruments between the three levels of fair value hierarchy during the year ended December 31, 2010.

Cash Surrender Value of Life Insurance Policies – The company maintains whole life insurance policies on a group of executives which are recorded at their cash surrender value as determined by the insurance carrier. Additionally, the company has split-dollar life insurance policies on former officers and executives from acquired businesses which are recorded at the lesser of their cash surrender value or premiums paid. The policies are utilized as a partial funding source for deferred compensation and other non-qualified employee retirement plans. As of December 31, 2010, and 2009, the carrying values associated with these policies of $257 million and $242 million, respectively, were recorded in miscellaneous other assets.

Long-Term Debt – As of December 31, 2010, and 2009, the carrying values of long-term debt were $4.7 billion and $4.0 billion, respectively, and the related estimated fair values were $5.1 billion and $4.5 billion, respectively. The fair value of long-term debt was calculated based on interest rates available for debt with terms and maturities similar to the company's existing debt arrangements.

The carrying amounts of all other financial instruments not discussed above approximate fair value due to their short-term nature.

13. NOTES PAYABLETO BANKS AND LONG-TERM DEBT

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

Credit Facility – The company has a revolving credit facility in an aggregate principal amount of $2 billion that matures on August 10, 2012. The credit facility permits the company to request additional lending commitments of up to $500 million from the lenders under the agreement or through other eligible lenders under certain circumstances. The agreement provides for swingline loans and letters of credit as sub-facilities for the credit facilities provided for in the agreement. Borrowings under the credit facility bear interest at various rates, including the London Interbank Offered Rate, adjusted based on the company's credit rating, or an alternate base rate plus an incremental margin. The credit facility also requires a facility fee based on the daily aggregate amount of commitments (whether or not utilized) and the company's credit rating level, and contains a financial covenant relating to a maximum debt to capitalization ratio, and certain restrictions on additional asset liens. There were no borrowings during 2010 and 2009. There was no balance outstanding under this facility at December 31, 2010, and 2009. As of December 31, 2010, the company was in compliance with all covenants.

Debt Tender Offers – In November 2010, the company made a tender offer for approximately $1.9 billion of debt securities held by its subsidiary Northrop Grumman Systems Corporation and maturing in 2016 to 2036 with interest rates ranging from 6.98 percent to 7.875 percent. Approximately $682 million in aggregate principal amount was purchased for a total price of $919 million (including accrued and unpaid interest on the securities). The company also recorded a pre-tax charge of $229 million principally related to the premiums paid on the debt tendered.

Debt Issuance – In November 2010, the company issued $500 million of 5-year, $700 million of 10-year, and $300 million of 30-year unsecured senior obligations. Interest on the notes is payable semi-annually in arrears at fixed rates of 1.85 percent, 3.50 percent, and 5.05 percent per annum, and the notes will mature on November 15, 2015, March 15, 2021 and November 15, 2040, respectively. These senior notes are subject to redemption at the company's discretion at any time prior to maturity in whole or in part at the principal amount plus any make-whole premium and accrued and unpaid interest. The net proceeds from these notes are being used for general corporate purposes including debt repayment, pension plan funding, acquisitions, share repurchases and working capital. A portion of the net proceeds was used to fund the purchase of the debt securities and bonds tendered and accepted for purchase in November 2010 as discussed above. The net proceeds may also be used to repay at maturity the $750 million of 7.125 percent senior notes due February 15, 2011.

In July 2009, the company issued $350 million of 5-year and $500 million of 10-year unsecured senior obligations. Interest on the notes is payable semi-annually in arrears at fixed rates of 3.70 percent and 5.05 percent per annum, and the notes will mature on August 1, 2014, and August 1, 2019, respectively. These senior notes are subject to redemption at the company's discretion at any time prior to maturity in whole or in part at the principal amount plus any make-whole premium and accrued and unpaid interest. The net proceeds from these notes were used for general corporate purposes including debt repayment, acquisitions, share repurchases, pension plan funding, and working capital. On October 15, 2009, a portion of the net proceeds was used to retire $400 million of 8 percent senior debt that had matured.

Long-term debt consisted of the following:

	December 31	
$ in millions	**2010**	2009
Notes and debentures due 2011 to 2040, rates from 1.85% to 9.375%	**$4,673**	$ 3,964
Capital lease obligations	**41**	35
Total long-term debt	**4,714**	3,999
Less current portion	**774**	91
Long-term debt, net of current portion	**$3,940**	$ 3,908

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

Maturities of long-term debt as of December 31, 2010, are as follows:

$ in millions	
Year Ending December 31	
2011	$ 773
2012	5
2013	4
2014	353
2015	502
Thereafter	3,066
Total principal payments	4,703
Unamortized premium on long-term debt, net of discount	11
Total long-term debt	$ 4,714

The premium on long-term debt primarily represents non-cash fair market value adjustments resulting from acquisitions, which are amortized over the life of the related debt.

14. INVESTIGATIONS, CLAIMS AND LITIGATION

Spin-off of Shipbuilding Business – As provided in the previously disclosed Separation and Distribution Agreement with HII described in Note 6, HII generally has responsibility for investigations, claims and litigation matters related to the Shipbuilding business. The company has therefore excluded from this report certain previously disclosed Shipbuilding-related investigations, claims and litigation matters that are the responsibility of HII. The company does not believe these HII matters are likely to have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

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, compensatory or treble damages or non-monetary relief. 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 a division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts and authorizations.

In August 2008, the company disclosed to the Antitrust Division of the Department of Justice possible violations of federal antitrust laws in connection with the bidding process for certain maintenance contracts at a military installation in California. In February 2009, the company and the Department of Justice signed an agreement admitting the company into the Corporate Leniency Program. As a result of the company’s acceptance into the Program, the company will be exempt from federal criminal prosecution and criminal fines relating to the matters the company reported to the Department of Justice if the company complies with certain conditions, including its continued cooperation with the government’s investigation and its agreement to make restitution if the government was harmed by the violations.

Based upon the available information regarding the foregoing matter that is subject to a U.S. Government investigation, the company does not believe that the outcome of such matter is likely to 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.

The company is one of several defendants in litigation brought by the Orange County Water District in Orange County Superior Court in California on December 17, 2004, for alleged contribution to volatile organic chemical contamination of the County's shallow groundwater. The lawsuit includes counts against the defendants for violation of the Orange County Water District Act, the California Super Fund Act, negligence, nuisance, trespass and declaratory relief. Among other things, the lawsuit seeks unspecified damages for the cost of remediation, payment of attorney fees and costs, and punitive damages. The June 2009 trial date was vacated. The litigation has been stayed until the next scheduled status conference, which has been set for May 19, 2011.

On March 27, 2007, the U.S. District Court for the Central District of California consolidated two Employee Retirement Income Security Act (ERISA) lawsuits that had been separately filed on September 28, 2006, and January 3, 2007, into In Re Northrop Grumman Corporation ERISA Litigation. The plaintiffs filed a consolidated Amended Complaint on September 15, 2010, alleging breaches of fiduciary duties by the Administrative Committees and the Investment Committees (as well as certain individuals who served on or supported those Committees) for two 401K Plans sponsored by Northrop Grumman Corporation. The company is not a defendant in the lawsuit. The plaintiffs claim that these alleged breaches of fiduciary duties caused the Plans to incur excessive administrative and investment fees and expenses to the detriment of the Plans' participants. On August 6, 2007, the District Court denied plaintiffs' motion for class certification, and the plaintiffs appealed the District Court's decision on class certification to the U.S. Court of Appeals for the Ninth Circuit. On September 8, 2009, the Ninth Circuit vacated the Order denying class certification and remanded the issue to the District Court for further consideration. As required by the Ninth Circuit's Order, the case was also reassigned to a different judge. The plaintiffs' renewed motion for class certification was rejected on a procedural technicality, and they re-filed on January 14, 2011. The District Court postponed the trial date of April 12, 2011, to an as yet undetermined date pending resolution of the class certification motion as well as summary judgment motions, which are to be filed by May 2, 2011. 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 the company will prevail in this litigation.

On June 22, 2007, a putative class action was filed against the Northrop Grumman Pension Plan and the Northrop Grumman Retirement Plan B and their corresponding administrative committees, styled as *Skinner et al. v. Northrop Grumman Pension Plan, etc., et al.,* in the U.S. District Court for the Central District of California. The putative class representatives alleged violations of ERISA and breaches of fiduciary duty concerning a 2003 modification to the Northrop Grumman Retirement Plan B. The modification relates to the employer funded portion of the pension benefit available during a five-year transition period that ended on June 30, 2008. The plaintiffs dismissed the Northrop Grumman Pension Plan, and in 2008 the District Court granted summary judgment in favor of all remaining defendants on all claims. The plaintiffs appealed, and in May 2009, the U.S. Court of Appeals for the Ninth Circuit reversed the decision of the District Court and remanded the matter back to the District Court for further proceedings, finding that there was ambiguity in a 1998 summary plan description related to the employer-funded component of the pension benefit. After the remand, the plaintiffs filed a motion to certify a class. The parties also filed cross-motions for summary judgment. On January 26, 2010, the District Court granted summary judgment in favor of the Plan and denied plaintiffs' motion for summary judgment. The District Court also denied plaintiffs' motion for class certification and struck the trial date of March 23, 2010 as unnecessary given the District Court's grant of summary judgment for the Plan. Plaintiffs appealed the District Court's order to the Ninth Circuit.

Based upon the information available, the company does not believe that the resolution of any of these specific claims and legal proceedings listed above is likely to have a material adverse effect on its consolidated financial position, results of operations or cash flows.

15. 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 settlements in the process of negotiation, contract changes, 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 December 31, 2010, the recognized amounts related to claims and requests for equitable adjustment are not material individually or in the aggregate.

Guarantees of Subsidiary Performance Obligations – From time to time in the ordinary course of business, the company guarantees performance obligations of its subsidiaries under certain contracts. In addition, the company's subsidiaries may enter into joint ventures, teaming and other business arrangements (collectively, Business Arrangements) to support the company's products and services in domestic and international markets. The company generally strives to limit its exposure under these arrangements to its subsidiary's investment in the Business Arrangements, or to the extent of such subsidiary's obligations under the applicable contract. In some cases, however, the company may be required to guarantee performance by the Business Arrangements and, in such cases, the company generally obtains cross-indemnification from the other members of the Business Arrangements. At December 31, 2010, the company is not aware of any existing event of default that would require it to satisfy any of these guarantees.

Environmental Matters – 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. These accruals do not include any litigation costs related to environmental matters, nor do they include amounts recorded as asset retirement obligations. To assess the potential impact on the company's consolidated financial statements, management estimates the range of 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 December 31, 2010, the range of reasonably possible future costs for environmental remediation sites is $277 million to $671 million, of which $106 million is accrued in other current liabilities and $207 million is accrued in other long-term liabilities. A portion of the environmental remediation costs is expected to be recoverable through overhead charges on government contracts and, accordingly, such amounts are deferred in inventoried costs (current portion) and miscellaneous other assets (non-current portion). 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, changes to the determination of legally responsible parties, 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. In addition, there are some potential remediation sites where the costs of remediation cannot be reasonably estimated. 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.

Financial Arrangements – In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued principally by insurance companies to guarantee the performance on certain contracts. At December 31, 2010, there were $196 million of stand-by letters of credit, $192 million of bank guarantees, and $150 million of surety bonds outstanding.

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

U.S. Government Claims – From time to time, customers advise the company of claims and penalties concerning certain potential disallowed costs. When such findings are presented, the company and the U.S. Government representatives engage in discussions to enable the company to evaluate the merits of these claims as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect the company's expected exposure to the matters raised by the U.S. Government representatives and such provisions are reviewed on a quarterly basis for sufficiency based on the most recent information available. The company believes 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, was $448 million in 2010, $502 million in 2009, and $530 million in 2008. These amounts are net of immaterial amounts of sublease rental income. Minimum rental commitments under long-term non-cancellable operating leases as of December 31, 2010, total approximately $1.4 billion, which are payable as follows: 2011 – $347 million; 2012 – $269 million; 2013 – $194 million; 2014 – $167 million; 2015 – $138 million and thereafter – $263 million.

Related Party Transactions – For all periods presented, the company had no material related party transactions.

Spin-off of Shipbuilding Business – As provided in the previously mentioned Separation and Distribution Agreement with HII described in Note 6, HII has responsibility for certain commitments and contingencies that are the responsibility of the Shipbuilding business and has agreed to indemnify the company for loss related to these commitments and contingencies. The company has therefore excluded from this report previously disclosed Shipbuilding-related commitments and contingencies that are the responsibility of HII.

A subsidiary of the company has guaranteed HII's outstanding $84 million Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project), Taxable Series 1999A. In conjunction with the spinoff of HII, the fair value of this guarantee, which is immaterial, will be recorded in other long-term liabilities. In addition, HII has assumed responsibility for the payment and performance of all outstanding indebtedness, obligations and liabilities of the company under this guarantee, and has agreed to indemnify the company against all liabilities that may be incurred in connection with this guarantee.

16. RETIREMENT BENEFITS

Plan Descriptions

Defined Benefit Pension Plans – The company sponsors several defined benefit pension plans in the U.S. covering the majority of its employees. Pension benefits for most employees are based on the employee's years of service and compensation. It is the policy of the company to fund at least the minimum amount required for all qualified plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into benefit trusts separate from the company. The pension benefit for most employees is based upon criteria whereby employees earn age and service points over their employment period.

Defined Contribution Plans – The company also sponsors 401(k) defined contribution plans in which most employees are eligible to participate, as well as certain bargaining unit employees. Company contributions for most plans are based on a cash matching of employee contributions up to 4 percent of compensation. Certain hourly employees are covered under a target benefit plan. The company also participates in a multiemployer plan for certain of the company's union employees. In addition to the 401(k) defined contribution benefit, non-represented employees hired after June 30, 2008, are eligible to participate in a defined contribution program in lieu of a defined benefit pension plan. The company's contributions to these defined contribution plans for the years ended December 31, 2010, 2009, and 2008, were $288 million, $291 million, and $262 million, respectively.

Non-U.S. Benefit Plans – The company sponsors several benefit plans for non-U.S. employees. These plans are designed to provide benefits appropriate to local practice and in accordance with local regulations. Some of these plans are funded using benefit trusts that are separate from the company.

Medical and Life Benefits – The company provides a portion of the costs for certain health care and life insurance benefits for a substantial number of its active and retired employees. Covered employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Qualifying dependents are also eligible for medical coverage. Approximately 50 percent of the company's current retirees participate in the medical plans. The company reserves the right to amend or terminate the plans at any time. In November 2006, the company adopted plan amendments and communicated to plan participants that it would cap the amount of its contributions to substantially all of its remaining post retirement medical and life benefit plans that were previously not subject to limits on the company's contributions.

In addition to a medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, conformance to a schedule of reasonable fees, the use of managed care providers, and maintenance of benefits with other plans. The plans also provide for a Medicare carve-out. Subsequent to January 1, 2005 (or earlier at some segments), newly hired employees are not eligible for post employment medical and life benefits.

The effect of the Medicare prescription drug subsidy from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 to reduce the company's net periodic post-retirement benefit cost and accumulated post-retirement benefit obligation for the periods presented was not material. Pursuant to the new healthcare law described below, the tax benefits related to Medicare Part D subsidies will expire on December 31, 2012.

New Health Care Legislation – The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act became law during the first quarter of 2010. The provisions of these new laws will affect the company's costs of providing health care benefits to its employees beginning in 2011. The company participated in the Early Retiree Reinsurance Program and continues to assess the extent to which the provisions of the new laws will affect its future health care and related employee benefit plan costs.

Spin-off of Shipbuilding Business – As a result of the spin-off of HII discussed in Note 1, the company reclassified to assets and liabilities of discontinued operations, certain pension and other post-retirement benefit plan assets and liabilities related exclusively to Shipbuilding employees and the Shipbuilding portion of Northrop Grumman pension and other post-retirement benefit plans that included Shipbuilding employees.

Summary Plan Results

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

	Pension Benefits			Medical and Life Benefits		
$ in millions	**2010**	2009	2008	**2010**	2009	2008
Components of Net Periodic Benefit Cost						
Service cost	**$ 531**	$ 547	$ 591	**$ 34**	$ 34	$ 40
Interest cost	**1,212**	1,180	1,179	**117**	124	127
Expected return on plan assets	**(1,517)**	(1,366)	(1,665)	**(56)**	(48)	(64)
Amortization of						
Prior service cost (credit)	**35**	34	33	**(51)**	(51)	(51)
Net loss from previous years	**206**	289	23	**18**	19	8
Other		21	1			
Net periodic benefit cost	**$ 467**	$ 705	$ 162	**$ 62**	$ 78	$ 60

The table below summarizes the components of changes in unamortized benefit plan costs for the years ended December 31, 2010, 2009, and 2008:

$ in millions	Pension Benefits	Medical and Life Benefits	Total
Changes in Unamortized Benefit plan Costs			
Change in net actuarial loss	$ 4,558	$ 132	$ 4,690
Change in prior service cost	73	30	103
Amortization of			
Prior service (cost) credit	(40)	65	25
Net loss from previous years	(24)	(22)	(46)
Tax benefits related to above items	(1,807)	(81)	(1,888)
Change in unamortized benefit plan costs – 2008	$ 2,760	$ 124	$ 2,884
Change in net actuarial loss	$ (524)	$ (60)	$ (584)
Change in prior service cost	5		5
Amortization of			
Prior service (cost) credit	(50)	59	9
Net loss from previous years	(337)	(28)	(365)
Tax expense related to above items	363	11	374
Change in unamortized benefit plan costs – 2009	$ (543)	$ (18)	$ (561)
Change in net actuarial loss	**$ (158)**	**$ (64)**	**$ (222)**
Amortization of			
Prior service (cost) credit	**(48)**	**60**	**12**
Net loss from previous years	**(244)**	**(26)**	**(270)**
Tax expense related to above items	**171**	**12**	**183**
Change in unamortized benefit plan costs – 2010	**$ (279)**	**$ (18)**	**$ (297)**

Unamortized benefit plan costs consist primarily of accumulated net after-tax actuarial losses totaling $2,771 million and $3,082 million as of December 31, 2010, and 2009, respectively. Net actuarial gains or losses are re-determined annually and principally arise from gains or losses on plan assets due to variations in the fair market value of the underlying assets and changes in the benefit obligation due to changes in actuarial assumptions. Net actuarial gains or losses are amortized to expense in future periods when they exceed ten percent of the greater of plan assets or projected benefit obligations by benefit plan. The excess of gains or losses over the ten percent threshold are subject to amortization over the average future service period of employees of approximately ten years.

	Pension Benefits		Medical and Life Benefits	
$ in millions	**2010**	2009	**2010**	2009
Amounts Recorded in Accumulated Other Comprehensive Loss				
Net actuarial loss	**$(4,246)**	$ (4,648)	**$(361)**	$(451)
Prior service (cost) credit	**(194)**	(242)	**238**	298
Income tax benefits related to above items	**1,752**	1,923	**49**	61
Unamortized benefit plan costs	**$(2,688)**	$(2,967)	**$ (74)**	$ (92)

The following tables set forth the funded status and amounts recognized in the consolidated statements of financial position for the company's defined benefit pension and retiree health care and life insurance benefit plans. Pension benefits data include the qualified plans as well as 11 domestic unfunded non-qualified plans for benefits provided to directors, officers, and certain employees. During 2010, nine such plans were merged. The company uses a December 31 measurement date for all of its plans.

	Pension Benefits		Medical and Life Benefits	
$ in millions	**2010**	2009	**2010**	2009
Change in Projected Benefit Obligation				
Projected benefit obligation at beginning of year	**$20,661**	$19,391	**$ 2,104**	$ 2,056
Service cost	**531**	547	**34**	34
Interest cost	**1,212**	1,180	**117**	124
Plan participants' contributions	**10**	10	**82**	91
Plan amendments		4		
Actuarial loss (gain)	**633**	755	**(27)**	20
Benefits paid	**(1,176)**	(1,261)	**(222)**	(238)
Other	**(51)**	35	**16**	17
Projected benefit obligation at end of year	**21,820**	20,661	**2,104**	2,104
Change in Plan Assets				
Fair value of plan assets at beginning of year	**18,184**	16,204	**843**	718
Gain on plan assets	**2,320**	2,562	**108**	126
Employer contributions	**789**	657	**105**	129
Plan participants' contributions	**10**	10	**82**	91
Benefits paid	**(1,176)**	(1,261)	**(222)**	(238)
Other	**(46)**	12	**16**	17
Fair value of plan assets at end of year	**20,081**	18,184	**932**	843
Funded status	**$ (1,739)**	$ (2,477)	**$(1,172)**	$(1,261)
Amounts Recognized in the Consolidated Statements of Financial Position				
Non-current assets	**$ 275**	$ 148	**$ 45**	$ 36
Current liability	**(94)**	(45)	**(48)**	(30)
Non-current liability	**(1,920)**	(2,580)	**(1,169)**	(1,267)

The following table shows those amounts expected to be recognized in net periodic benefit cost in 2011:

$ in millions	Pension Benefits	Medical and Life Benefits
Amounts Expected to be Recognized in 2011 Net Periodic Benefit Cost		
Net loss	$ 161	$ 11
Prior service cost (credit)	23	(51)

The accumulated benefit obligation for all defined benefit pension plans was $20.5 billion and $19.3 billion at December 31, 2010, and 2009, respectively.

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

	December 31	
$ in millions	**2010**	2009
Projected benefit obligation	**$5,897**	$18,637
Accumulated benefit obligation	**5,314**	17,339
Fair value of plan assets	**4,447**	16,043

Plan Assumptions

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

	Pension Benefits		Medical and Life Benefits	
	2010	2009	**2010**	2009
Assumptions Used to Determine Benefit Obligation at December 31				
Discount rate	**5.75%**	6.03%	**5.62%**	5.77%
Rate of compensation increase	**3.50%**	3.75%		
Initial health care cost trend rate assumed for the next year			**8.00%**	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate			**2017**	2014
Assumptions Used to Determine Benefit Cost for the Year Ended December 31				
Discount rate	**6.03%**	6.25%	**5.77%**	6.25%
Expected long-term return on plan assets	**8.50%**	8.50%	**6.90%**	6.95%
Rate of compensation increase	**3.75%**	4.00%		
Initial health care cost trend rate assumed for the next year			**7.00%**	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate			**2014**	2014

The discount rate is generally based on the yield on high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined using the results of bond yield curve models based on a portfolio of high quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan.

The assumptions used for pension benefits are consistent with those used for retiree medical and life insurance benefits. The long-term rate of return on plan assets used for the medical and life benefits are reduced to allow for the impact of tax on expected returns as, unlike the pension trust, the earnings of certain Voluntary Employee Beneficiary Association (VEBA) trusts are taxable.

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

A one-percentage-point change in the initial through the ultimate health care cost trend rates would have the following effects:

$ in millions	1-Percentage-Point Increase	1-Percentage-Point Decrease
Increase (Decrease) From Change In Health Care Cost Trend Rates To		
Post-retirement benefit expense	$ 5	$ (6)
Post-retirement benefit liability	57	(68)

Plan Assets and Investment Policy

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

All investment policies and procedures are designed to ensure that the plans' investments are in compliance with ERISA. Guidelines are established defining permitted investments within each asset class. Derivatives are used for transitioning assets, asset class rebalancing, managing currency risk, and for management of fixed income and alternative investments. For the majority of the plans' assets, the investment policies require that the asset allocation be maintained within the following ranges as of December 31, 2010:

	Asset Allocation Ranges
Domestic equities	10% – 30%
International equities	10% – 30%
Fixed income securities	30% – 50%
Real estate and other	10% – 30%

The table below provides the fair values of the company's pension and VEBA trust plan assets at December 31, 2010, and 2009, by asset category. The table also identifies the level of inputs used to determine the fair value of assets in each category (see Note 1 for definition of levels). The significant amount of Level 2 investments in the table results from including in this category investments in pooled funds that contain investments with values based on quoted market prices, but for which the funds are not valued on a quoted market basis, and fixed income securities that are valued using model based pricing services.

	Level 1		Level 2		Level 3		Total	
$ in millions	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Asset Category								
Domestic equities	**$3,948**	$3,164	**$ 3**		**$ 2**	$ 2	**$ 3,953**	$ 3,166
International equities	**1,406**	1,304	**1,868**	$ 1,353			**3,274**	2,657
Fixed income securities								
Cash and cash equivalents(1)	**92**	122	**1,111**	1,850			**1,203**	1,972
U.S. Treasuries			**1,381**	1,151			**1,381**	1,151
Other U.S. Government Agency Securities			**715**	650			**715**	650
Non-U.S. Government Securities			**224**	193			**224**	193
Corporate debt			**3,512**	4,029			**3,512**	4,029
Asset backed			**758**	712	**4**	4	**762**	716
High yield debt			**992**	493	**78**	59	**1,070**	552
Bank loans			**115**	92			**115**	92
Real estate and other								
Hedge funds					**1,521**	1,282	**1,521**	1,282
Private equities					**1,945**	1,651	**1,945**	1,651
Real estate					**1,402**	870	**1,402**	870
Other(2)			**(64)**	46			**(64)**	46
Fair value of plan assets at the end of the year	**$5,446**	**$4,590**	**$10,615**	**$10,569**	**$ 4,952**	**$3,868**	**$21,013**	**$19,027**

(1) Cash & cash equivalents are predominantly held in money market funds

(2) Other includes futures, swaps, options, swaptions and insurance contracts year end.

The changes in the fair value of the pension and VEBA plan trust assets measured using significant unobservable inputs during 2010 and 2009, are as follows:

$ in millions	Domestic equities	Asset Backed	High yield debt	Hedge funds	Private equities	Real estate	**Total**
Balance as of December 31, 2008	$ 1	$ 4	$ 40	$ 1,152	$ 1,634	$ 1,148	**$3,979**
Actual return on plan assets:							
Assets still held at reporting date			19	164	(109)	(382)	**(308)**
Assets sold during the period				(10)	1	(10)	**(19)**
Purchases, sales, and settlements	1			(24)	125	114	**216**
Balance as of December 31, 2009	$ 2	$ 4	$ 59	$ 1,282	$1,651	$ 870	**$3,868**
Actual return on plan assets:							
Assets still held at reporting date	2		18	120	200	103	**443**
Assets sold during the period						(9)	**(9)**
Purchases, sales, and settlements	(2)			89	63	405	**555**
Changes in asset allocation mix			1	30	31	33	**95**
Balance as of December 31, 2010	**$ 2**	**$ 4**	**$ 78**	**$1,521**	**$1,945**	**$ 1,402**	**$4,952**

Generally, investments are valued based on information in financial publications of general circulation, statistical and valuation services, records of security exchanges, appraisal by qualified persons, transactions and bona fide offers. Domestic and international equities consist primarily of common stocks and institutional common trust funds. Investments in common and preferred shares are valued at the last reported sales price of the stock on the last business day of the reporting period. Units in common trust funds and hedge funds are valued based on the redemption price of units owned by the trusts at year-end. Fair value for real estate and private equity partnerships is primarily based on valuation methodologies that include third party appraisals, comparable transactions, discounted cash flow valuation models, and public market data.

Non-government fixed income securities are invested across various industry sectors and credit quality ratings. Generally, investment guidelines are written to limit securities, for example, to no more than 5 percent of each trust account, and to exclude the purchase of securities issued by the company. The number of real estate and private equity partnerships is 167 and the unfunded commitments are $1.2 billion and $1.1 billion as of December 31, 2010, and 2009, respectively. For alternative investments that cannot be redeemed, such as limited partnerships, the typical investment term is ten years. For alternative investments that permit redemptions, such redemptions are generally made quarterly and require a 90-day notice. The company is generally unable to determine the final redemption amount until the request is processed by the investment fund and therefore categorizes such alternative investments as Level 3 assets. In 2010, the company changed the asset allocation policy for certain of its plans, and on a consolidated basis, this change had no impact on overall trust assets. However, with trust assets relating to shipbuilding reported as discontinued operations, a net increase in Level 3 assets is reflected for plan assets related to continuing operations.

At December 31, 2010, and 2009, the defined benefit pension and VEBA trusts did not hold any Northrop Grumman common stock.

Benefit Payments

The following table reflects estimated future benefit payments, based upon the same assumptions used to measure the benefit obligation, and includes expected future employee service, as of December 31, 2010:

$ in millions	Pension Plans	Medical and Life Plans
Year Ending December 31		
2011	$ 1,106	$ 150
2012	1,163	153
2013	1,235	157
2014	1,315	161
2015	1,383	164
2016 through 2020	7,997	849

In 2011, the company expects to contribute the required minimum funding level of approximately $59 million to its pension plans and approximately $124 million to its other post-retirement benefit plans and also expects to make additional voluntary pension contributions of approximately $500 million. During 2010 and 2009, the company made voluntary pension contributions of $728 million and $601 million, respectively.

17. STOCK COMPENSATION PLANS

Plan Descriptions

At December 31, 2010, Northrop Grumman had stock-based compensation awards outstanding under the following plans: the 2001 Long-Term Incentive Stock Plan (2001 LTISP) applicable to employees, and the 1993 Stock Plan for Non-Employee Directors (1993 SPND) and 1995 Stock Plan for Non-Employee Directors (1995 SPND) as amended. All of these plans were approved by the company's shareholders. The company has historically issued new shares to satisfy award grants.

Employee Plans – The 2001 LTISP permits grants to key employees of three general types of stock incentive awards: stock options, stock appreciation rights (SARs), and stock awards. Each stock option grant is made with an exercise price either at the closing price of the stock on the date of grant (market options) or at a premium over the closing price of the stock on the date of grant (premium options). Outstanding stock options granted prior to 2008 generally vest in 25 percent increments over four years from the grant date, and grants outstanding expire ten years after the grant date. Stock options granted 2008 and later vest in 33 percent increments over three years from the grant date and grants outstanding expire seven years after the grant date. No SARs have been granted under the LTISP. Stock awards, in the form of restricted performance stock rights and restricted stock rights, are granted to key employees without payment to the company.

Recipients of restricted performance stock rights earn shares of stock, based on financial metrics determined by the board of directors in accordance with the plan. For grants prior to 2007, if the objectives have not been met at the end of the applicable performance period, up to 100 percent of the original grant for the eight highest compensated employees and up to 70 percent of the original grant for all other recipients will be forfeited. If the financial metrics are met or exceeded during the performance period, all recipients can earn up to 150 percent of the original grant. Beginning in 2007, all members of the Corporate Policy Council (consisting of the CEO and certain other leadership positions) could forfeit up to 100 percent of the original grant, and all recipients could earn up to 200 percent of the original grant. Restricted stock rights issued under either plan generally vest after three years. Termination of employment can result in forfeiture of some or all of the benefits extended. Of the 50 million shares approved for issuance under the 2001 LTISP, approximately 9.4 million shares were available for future grants as of December 31, 2010.

Non-Employee Plans – Under the 1993 SPND, at least half of the retainer fee earned by each director must be deferred into a stock unit account (Automatic Stock Units). Effective January 1, 2010, the amended SPND provides that the Automatic Stock Units be awarded at the conclusion of board service or as specified by the director. If a director has less than 5 years of service, the stock units are awarded at the conclusion of board service. In addition, directors may defer payment of all or part of the remaining retainer fee and other annual committee fees, which are placed in a stock unit account (Elective Stock Units). The Elective Stock Units are awarded at the conclusion of board service or as specified by the director, regardless of years of service. Directors are credited with dividend equivalents in connection with the stock units until the shares are awarded. The 1995 SPND provided for annual stock option grants, and effective June 1, 2005, no new grants have been issued from this plan. The 1995 SPND was amended in May 2007 to permit payment of the stock unit portion of the retainer fee described above. Each grant of stock options under the 1995 SPND was made at the closing market price on the date of the grant, was immediately exercisable, and expires ten years after the grant date. At December 31, 2010, approximately 93 thousand shares were available for future grants under the 1995 SPND.

Compensation Expense

Total stock-based compensation for the years ended December 31, 2010, 2009, and 2008, was $134 million, $101 million, and $111 million, respectively, of which $27 million, $20 million, and $15 million related to stock options and $107 million, $81 million, and $96 million, related to stock awards, respectively. Tax benefits recognized in the consolidated statements of operations for stock-based compensation during the years ended December 31, 2010, 2009, and 2008, were $53 million, $40 million, and $44 million, respectively. In addition, the company realized tax benefits of $17 million from the exercise of stock options and $34 million from the issuance of stock awards in 2010. As a result of the spin-off of HII described in Note 1, of the total stock-based compensation for the years ended December 31, 2010, 2009, and 2008, amounts recorded in discontinued operations are $16 million, $11 million, and $13 million, respectively.

At December 31, 2010, there was $172 million of unrecognized compensation expense related to unvested awards granted under the company's stock-based compensation plans, of which $19 million relates to stock options and $153 million relates to stock awards. These amounts are expected to be charged to expense over a weighted-average period of 1.4 years.

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 future forfeitures. The expected term of awards granted is derived from historical experience under the company's stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding.

The significant weighted-average assumptions relating to the valuation of the company's stock options for the years ended December 31, 2010, 2009, and 2008, was as follows:

	2010	2009	2008
Dividend yield	**2.9%**	3.6%	1.8%
Volatility rate	**25%**	25%	20%
Risk-free interest rate	**2.2%**	1.7%	2.8%
Expected option life (years)	**6**	5-6	6

The company generally granted stock options exclusively to executives, and the expected term of six years is based on these employees' exercise behavior. In 2009, the company granted options to non-executives and assigned an expected term of five years for valuing these options. The company believes that this stratification of expected terms best represents future expected exercise behavior between the two employee groups.

The weighted-average grant date fair value of stock options granted during the years ended December 31, 2010, 2009, and 2008, was $11, $7, and $15, per share, respectively.

Stock option activity for the year ended December 31, 2010, 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, 2010	14,442	$ 53	3.8 years	$ 88
Granted	2,092	60		
Exercised	(2,913)	48		
Cancelled and forfeited	(400)	54		
Outstanding at December 31, 2010	**13,221**	**$ 55**	**3.8 years**	**$ 149**
Vested and expected to vest in the future at December 31, 2010	13,084	$ 55	3.7 years	$ 147
Exercisable at December 31, 2010	9,813	$ 55	3.1 years	$ 115
Available for grant at December 31, 2010	7,257			

The total intrinsic value of options exercised during the years ended December 31, 2010, 2009, and 2008, was $42 million, $11 million, and $66 million, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at December 31, 2010 (for outstanding options), less the applicable exercise price.

Stock Awards

The fair value of stock awards is determined based on the closing market price of the company's common stock on the grant date. Compensation expense for stock awards is measured at the grant date based on fair value and recognized over the vesting period, generally three years. For purposes of measuring compensation expense, the number of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria.

Stock award activity for the years ended December 31, 2010, 2009, and 2008, is presented in the table below. Vested awards include stock awards fully vested during the year and net adjustments to reflect the final performance measure for issued shares.

	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	1,505	80	
Vested	(2,950)	64	
Forfeited	(423)	65	
Outstanding at December 31, 2008	3,276	$ 75	1.4 years
Granted	2,356	45	
Vested	(1,645)	71	
Forfeited	(329)	66	
Outstanding at December 31, 2009	3,658	$ 58	1.6 years
Granted	2,317	60	
Vested	(1,319)	79	
Forfeited	(356)	56	
Outstanding at December 31, 2010	**4,300**	**$ 53**	**1.5 years**
Available for grant at December 31, 2010	2,110		

The company issued 1.3 million, 2.5 million, and 2.9 million shares to employees in settlement of prior year stock awards that were fully vested, which had total fair values at issuance of $76 million, $111 million, and $233 million and grant date fair values of $91 million, $161 million, and $155 million during the years ended December 31, 2010, 2009, and 2008, respectively. The differences between the fair values at issuance and the grant date fair values reflect the effects of the performance adjustments and changes in the fair market value of the company's common stock.

In 2011, the company expects to issue to employees 1.3 million shares of common stock that vested as of December 31, 2010, with a grant date fair value of $101 million.

18. UNAUDITED SELECTED QUARTERLY DATA

Unaudited quarterly financial results are set forth in the following tables. It is the company'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, in order to normalize the potentially disruptive effects of quarterly close on business processes. The effects of this practice only exist within a reporting year. The company's common stock is traded on the New York Stock Exchange (trading symbol NOC).

2010

$ in millions, except per share	**1st Qtr**	**2nd Qtr**	**3rd Qtr**	**4th Qtr**
Sales and service revenues	$6,914	$7,255	$7,071	$6,903
Operating income	680	749	723	675
Earnings from continuing operations	410	740	448	306
Net earnings	469	711	497	376
Basic earnings per share from continuing operations	1.36	2.47	1.53	1.05
Basic earnings per share	1.55	2.37	1.69	1.29
Diluted earnings per share from continuing operations	1.34	2.44	1.51	1.03
Diluted earnings per share	1.53	2.34	1.67	1.27

Significant 2010 Fourth Quarter Events – In the fourth quarter of 2010, the company recorded a pre-tax charge of $229 million related to the redemption of outstanding debt and made a $360 million contribution to the company's pension plans.

2009

$ in millions, except per share	**1st Qtr**	**2nd Qtr**	**3rd Qtr**	**4th Qtr**
Sales and service revenues	$6,586	$7,049	$6,732	$7,283
Operating income	556	627	528	563
Earnings from continuing operations	325	381	401	327
Net earnings	364	370	461	491
Basic earnings per share from continuing operations	.99	1.18	1.26	1.05
Basic earnings per share	1.11	1.15	1.45	1.57
Diluted earnings per share from continuing operations	.98	1.17	1.25	1.04
Diluted earnings per share	1.10	1.14	1.44	1.56

Significant 2009 Fourth Quarter Event – In the fourth quarter of 2009, the company sold ASD for $1.65 billion in cash.