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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2005

or

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

For the transition period from to	Commission File Number 1-16411

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

DELAWARE (State or other jurisdiction of incorporation or organization)	**95-4840775** (I.R.S. Employer Identification Number)

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

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS

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

As of July 26, 2005, 357,092,846 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

$ in millions		**June 30, 2005**		December 31, 2004
Assets:				
Cash and cash equivalents	**$**	**1,215**	$	1,230
Accounts receivable, net of progress payments of $29,779 in 2005 and $26,754 in 2004		**3,542**		3,492
Inventoried costs, net of progress payments of $1,010 in 2005 and $1,049 in 2004		**1,185**		1,049
Deferred income taxes		**748**		777
Prepaid expenses and other current assets		**232**		293
Total current assets		**6,922**		6,841
Property, plant, and equipment, net of accumulated depreciation of $2,410 in 2005 and $2,189 in 2004		**4,204**		4,210
Goodwill		**17,379**		17,182
Other purchased intangibles, net of accumulated amortization of $1,313 in 2005 and $1,205 in 2004		**1,403**		1,477
Prepaid retiree benefits cost and intangible pension asset		**2,893**		2,938
Other assets		**645**		647
Total assets	**$**	**33,446**	$	33,295

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$ in millions	**June 30, 2005**	December 31, 2004
Liabilities and Shareholders' Equity:		
Notes payable to banks	**$ 53**	$ 9
Current portion of long-term debt	**526**	33
Trade accounts payable	**1,552**	1,750
Accrued employees' compensation	**1,044**	1,070
Advances on contracts	**1,508**	1,336
Income taxes payable	**439**	454
Other current liabilities	**1,436**	1,505
Total current liabilities	**6,558**	6,157
Long-term debt	**4,581**	5,116
Mandatorily redeemable preferred stock	**350**	350
Accrued retiree benefits	**3,827**	3,736
Deferred income taxes	**530**	506
Other long-term liabilities	**742**	730
Total liabilities	**16,588**	16,595
Common stock, 800,000,000 shares authorized; issued and outstanding: 2005 — 357,527,618; 2004 — 364,430,202	**358**	364
Paid-in capital	**12,024**	12,426
Retained earnings	**4,614**	4,014
Unearned compensation	**(2)**	(3)
Accumulated other comprehensive loss	**(136)**	(101)
Total shareholders' equity	**16,858**	16,700
Total liabilities and shareholders' equity	**$ 33,446**	$ 33,295

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

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CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

$ in millions, except per share	Three months ended June 30		Six months ended June 30	
	2005	2004	**2005**	2004
Sales and Service Revenues				
Product sales	**$ 5,318**	$ 5,182	**$ 10,254**	$ 10,170
Service revenues	**2,644**	2,253	**5,161**	4,429
Total revenues	**7,962**	7,435	**15,415**	14,599
Cost of Sales and Service				
Cost of product sales	**4,277**	4,179	**8,230**	8,197
Cost of service revenues	**2,364**	2,086	**4,607**	4,153
General and administrative expenses	**705**	677	**1,367**	1,318
Operating margin	**616**	493	**1,211**	931
Interest income	**25**	16	**39**	32
Interest expense	**(94)**	(112)	**(189)**	(225)
Other, net	**7**	3	**89**	13
Income from continuing operations before income taxes	**554**	400	**1,150**	751
Federal and foreign income taxes	**188**	102	**386**	221
Income from continuing operations	**366**	298	**764**	530
Income from discontinued operations, net of tax				1
Gain on disposal of discontinued operations, net of tax	**1**		**12**	3
Net income	**$ 367**	$ 298	**$ 776**	$ 534
Basic Earnings Per Share				
Continuing operations	**$ 1.02**	$ .83	**$ 2.13**	$ 1.47
Disposal of discontinued operations			**.03**	.01
Basic earnings per share	**$ 1.02**	$ .83	**$ 2.16**	$ 1.48
Weighted average common shares outstanding, in millions	**358.5**	359.0	**359.5**	360.2
Diluted Earnings Per Share				
Continuing operations	**$ 1.00**	$ .82	**$ 2.09**	$ 1.46
Disposal of discontinued operations			**.03**	.01
Diluted earnings per share	**$ 1.00**	$ .82	**$ 2.12**	$ 1.47
Weighted average diluted shares outstanding, in millions	**365.2**	363.5	**365.7**	364.3

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

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CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

$ in millions	Three months ended June 30 **2005**	Three months ended June 30 2004	Six months ended June 30 **2005**	Six months ended June 30 2004
Net income	**$ 367**	$ 298	**$ 776**	$ 534
Other Comprehensive (Loss) Income				
Change in cumulative translation adjustment	**(5)**	(11)	**(4)**	(7)
Unrealized (losses) gains on marketable securities, net of tax of $0 for three months ended June 30, 2005, and 2004, and $0 and $13 for the six months ended June 30, 2005, and 2004, respectively	**(2)**	(1)	**(2)**	23
Reclassification adjustment on sale of marketable securities, net of tax of $15			**(29)**	
Other comprehensive (loss) income, net of tax	**(7)**	(12)	**(35)**	16
Comprehensive income	**$ 360**	$ 286	**$ 741**	$ 550

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

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

$ in millions	Six months ended June 30 2005	2004
Operating Activities		
Sources of Cash—Continuing Operations		
Cash received from customers		
Progress payments	**$ 3,916**	$ 3,941
Other collections	**11,586**	10,539
Income tax refunds received	**29**	104
Interest received	**71**	2
Other cash receipts	**16**	29
Total sources of cash—continuing operations	**15,618**	14,615
Uses of Cash—Continuing Operations		
Cash paid to suppliers and employees	**13,885**	13,182
Interest paid	**195**	231
Income taxes paid	**349**	291
Litigation settlement	**99**	
Other cash payments	**14**	18
Total uses of cash—continuing operations	**14,542**	13,722
Cash provided by continuing operations	**1,076**	893
Cash used in discontinued operations		(20)
Net cash provided by operating activities	**1,076**	873
Investing Activities		
Proceeds from sale of businesses	**56**	64
Payment for business purchased	**(313)**	
Proceeds from sale of property, plant, and equipment	**5**	6
Additions to property, plant, and equipment	**(346)**	(267)
Proceeds from sale of investments	**143**	23
Other investing activities, net	**(17)**	12
Net cash used in investing activities	**(472)**	(162)
Financing Activities		
Borrowings under lines of credit	**55**	103
Repayment of borrowings under lines of credit	**(11)**	(103)
Principal payments of long-term debt	**(32)**	(109)
Proceeds from issuance of stock	**52**	64
Dividends paid	**(176)**	(154)
Common stock repurchases	**(507)**	(295)
Net cash used in financing activities	**(619)**	(494)
(Decrease) increase in cash and cash equivalents	**(15)**	217
Cash and cash equivalents, beginning of period	**1,230**	342
Cash and cash equivalents, end of period	**$ 1,215**	$ 559

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$ in millions	Six months ended June 30 2005	2004
Reconciliation of Income from Continuing Operations to Net Cash Provided by Operating Activities		
Income from continuing operations	**$ 764**	$ 530
Adjustments to reconcile to net cash provided by operating activities		
Depreciation	**257**	244
Amortization of intangible assets	**108**	113
Stock-based compensation	**58**	56
Loss on disposals of property, plant, and equipment	**6**	3
Amortization of long-term debt premium	**(10)**	(10)
Gain on sale of investment	**(70)**	
Decrease (increase) in		
Accounts receivable	**(3,046)**	(2,967)
Inventoried costs	**(97)**	(141)
Prepaid expenses and other current assets	**(20)**	7
Increase (decrease) in		
Progress payments	**2,986**	2,710
Accounts payable and accruals	**(80)**	260
Deferred income taxes	**95**	88
Income taxes payable	**13**	(33)
Retiree benefits	**136**	29
Other non-cash transactions, net	**(24)**	4
Cash provided by continuing operations	**1,076**	893
Cash used in discontinued operations		(20)
Net cash provided by operating activities	**$ 1,076**	$ 873
Non-Cash Investing and Financing Activities		
Sale of business		
Liabilities assumed by purchaser	**$ 41**	
Purchase of business		
Fair value of assets acquired	**$ 356**	
Payment for business purchased	**(313)**	
Liabilities assumed	**$ 43**	

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

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

$ in millions, except per share	Six months ended June 30 2005	2004
Common Stock		
At beginning of period	**$ 364**	$ 362
Common stock repurchased	**(9)**	(4)
Employee stock awards and options	**3**	1
At end of period	**358**	359
Paid-in Capital		
At beginning of period	**12,426**	12,071
Common stock repurchased	**(480)**	(291)
Stock split		179
Employee stock awards and options, net of tax	**78**	121
At end of period	**12,024**	12,080
Retained Earnings		
At beginning of period	**4,014**	3,431
Net income	**776**	534
Stock split		(179)
Cash dividends	**(176)**	(154)
At end of period	**4,614**	3,632
Unearned Compensation		
At beginning of period	**(3)**	(6)
Amortization of unearned compensation	**1**	2
At end of period	**(2)**	(4)
Accumulated Other Comprehensive Loss		
At beginning of period	**(101)**	(73)
Change in cumulative translation adjustment	**(4)**	(7)
Unrealized (losses) gains on marketable securities, net of tax	**(2)**	23
Reclassification adjustment on sale of marketable securities, net of tax	**(29)**	
At end of period	**(136)**	(57)
Total shareholders' equity	**$ 16,858**	$ 16,010
Cash dividends per share	**$ .49**	$ .43

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

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

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

The accompanying unaudited consolidated condensed financial statements of the company have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. These statements include all adjustments considered necessary by management to present a fair statement of the financial position, results of operations, and cash flows. The results reported in these financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the company's 2004 Annual Report on Form 10-K.

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

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

Financial Statement Reclassifications – Certain amounts in the prior year financial statements and related notes have been reclassified to conform to the 2005 presentation.

During the third quarter of 2004, the company suspended its efforts to sell the remaining Component Technologies (CT) businesses, which consisted of a manufacturer of complex printed circuit boards and assemblies, an electronic connector manufacturer, and a European-based marketing group. Accordingly, the assets, liabilities, and results of operations of these businesses were reclassified from discontinued operations to continuing operations for the three and six months ended June 30, 2004, and reported under the segment entitled "Other." As a result of the reclassification, net sales for the three and six months ended June 30, 2004, increased by $61 million and $120 million, respectively. Income from continuing operations increased by $6 million for the three and six months ended June 30, 2004, and diluted earnings per share from continuing operations increased by $.02 for the three and six months ended June 30, 2004. Effective January 1, 2005, the manufacturer of complex printed circuit boards and the electronic connector manufacturer were realigned from the Other segment to the Electronic Systems segment. The prior year financial statements do not reflect this realignment as the effect on the Electronic Systems segment's sales and operating margin was not significant. During the second quarter of 2005, the company decided to shut-down the European-based marketing group and the costs associated with the shut-down are not significant.

Restatement for Medicare Part D Subsidy – During the third quarter of 2004, the company recorded the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 retroactively to January 1, 2004,

in accordance with the guidelines of Financial Accounting Standards Board (FASB) Staff Position FAS 106-2 – *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.* As a result, net income for the three and six months ended June 30, 2004, increased by $3 million, or $.01 per diluted share, and $7 million, or $.02 per diluted share, respectively.

2. NEW ACCOUNTING STANDARDS

Several new accounting pronouncements issued by the FASB became effective during the periods presented. None of the new pronouncements effective during the periods presented had a significant effect on the company's financial position or results of operations.

Other new pronouncements issued by the FASB and not effective until after June 30, 2005, are not expected to have a significant effect on the company's financial position or results of operations, with the possible exception of the following, which are currently being evaluated by management:

In March 2005, the FASB issued FASB Interpretation No. (FIN) 47 – *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*, that clarifies the term "conditional asset retirement obligation" as used in Statement of Financial Accounting Standards (SFAS) No. 143 – *Accounting for Asset Retirement Obligations*. Specifically, FIN 47 provides that an asset retirement obligation is conditional when either the timing and (or) method of settling the obligation is conditioned on a future event. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. This interpretation also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective for fiscal years ending after December 15, 2005.

In December 2004, the FASB issued SFAS No. 123(R) – *Share-Based Payment*, which replaces SFAS No. 123 – *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25 – *Accounting for Stock Issued to Employees*. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 – *Share-Based Payment*, which provides interpretive guidance related to SFAS No. 123(R). SFAS No. 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements. With limited exceptions, the amount of compensation cost is measured based on the grant-date fair value of the equity or liability instruments issued. SFAS No. 123(R) requires liability awards to be remeasured each reporting period and compensation costs to be recognized over the period that an employee provides service in exchange for the award. In April 2005, the SEC delayed the effective date of SFAS No. 123(R) to the beginning of the annual reporting period that begins after June 15, 2005. Management plans to adopt this statement on a prospective basis beginning January 1, 2006.

3. COMMON STOCK DIVIDEND

Common Stock Dividend – On March 23, 2005, the company's Board of Directors approved a 13 percent increase to the quarterly common stock dividend, from $.23 per share to $.26 per share, beginning with the second quarter 2005 dividend.

4. BUSINESS ACQUIRED

On March 21, 2005, the company acquired privately held Integic Corporation (Integic) for $313 million. Integic is located in Chantilly, Virginia, and specializes in enterprise health and business process management solutions. The operating results of Integic are included as part of the Government Information Technology business area of

the Information Technology segment beginning April 1, 2005, as the operating results from March 21, 2005, through March 31, 2005, were not significant. The assets, liabilities, and results of operations of Integic were not material and thus pro-forma information is not presented. The financial statements reflect preliminary estimates of the fair value of the assets acquired and liabilities assumed and the related allocations of the purchase price for Integic. During the three months ended June 30, 2005, approximately $34 million of the purchase price was allocated from goodwill to purchased intangibles and amortization expense for these intangibles from the acquisition date was recorded in the quarter ended June 30, 2005 (see Note 9). The company is currently reviewing preliminary fair value adjustments associated with certain contracts and accounts receivable. The ultimate allocation of the purchase price may differ from the amounts included in these financial statements. Adjustments to the purchase price allocations are expected to be finalized by the fourth quarter of 2005, and will be reflected in future filings. Management does not expect these adjustments, if any, to have a material effect on the company’s financial position or results of operations.

5. BUSINESSES SOLD AND DISCONTINUED OPERATIONS

Teldix – On March 31, 2005, the company sold Teldix GmbH (Teldix) for $56 million in cash and recognized a pre-tax gain of $16 million in discontinued operations. Subsequent purchase price adjustments per the sale agreement have decreased the pre-tax gain to $15 million for the six months ended June 30, 2005. The results of operations of Teldix, reported in the Electronic Systems segment, were not material to any of the periods presented and have therefore not been reclassified as discontinued operations.

Kester – In February 2004, the company sold one of the CT businesses, Kester, for $60 million in cash and recognized a pre-tax gain of $3 million in discontinued operations. The accompanying Consolidated Condensed Statements of Income include the January and February 2004 operating results of Kester, which were not material.

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6. SEGMENT INFORMATION

The table below presents segment operating information for the three months and six months ended June 30, 2005, and 2004, respectively. The segment entitled "Other" consists of the remaining CT businesses (see Note 1).

	Three months ended June 30		Six months ended June 30	
$ in millions	**2005**	2004	**2005**	2004
Sales and Service Revenues				
Electronic Systems	**$ 1,765**	$ 1,591	**$ 3,308**	$ 3,129
Ships	**1,587**	1,557	**3,101**	3,001
Integrated Systems	**1,404**	1,133	**2,703**	2,280
Mission Systems	**1,320**	1,298	**2,625**	2,481
Information Technology	**1,331**	1,225	**2,560**	2,455
Space Technology	**875**	836	**1,738**	1,642
Other	**11**	61	**22**	120
Intersegment eliminations	**(331)**	(266)	**(642)**	(509)
Total sales and service revenues	**$ 7,962**	$ 7,435	**$ 15,415**	$ 14,599
Operating Margin				
Electronic Systems	**$ 198**	$ 138	**$ 359**	$ 296
Ships	**101**	100	**205**	186
Integrated Systems	**108**	90	**244**	206
Mission Systems	**99**	86	**190**	162
Information Technology	**89**	73	**174**	144
Space Technology	**69**	61	**131**	112
Other	**(5)**	4	**(6)**	6
Total segment operating margin	**659**	552	**1,297**	1,112
Adjustments to reconcile to total operating margin				
Unallocated expenses	**(42)**	(47)	**(69)**	(154)
Pension expense	**(103)**	(86)	**(206)**	(177)
Reversal of CAS pension expense included above	**105**	77	**197**	157
Reversal of royalty income included above	**(3)**	(3)	**(8)**	(7)
Total operating margin	**$ 616**	$ 493	**$ 1,211**	$ 931

The reconciling item captioned "Unallocated expenses" includes the portion of corporate, legal, environmental, state income tax, other retiree benefits expenses, stock compensation, and other expenses not considered allocable to government contracts under applicable government regulations and not allocated to the segments. Pension expense is included in determining segment operating margin to the extent that the cost is currently recognized under U.S. Government Cost Accounting Standards (CAS). In order to reconcile from segment operating margin to total company operating margin, these amounts are reported under the caption "Reversal of CAS pension expense included above." Total pension expense determined under accounting principles generally accepted in the United States of America is reported separately as a reconciling item under the caption "Pension expense."

7. EARNINGS PER SHARE

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

Diluted Earnings Per Share – The dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans totaled 6.7 million and 4.5 million shares for the three months ended June 30, 2005, and 2004, respectively, and 6.2 million and 4.1 million shares for the six months ended June 30, 2005, and 2004, respectively. Shares issuable pursuant to the mandatorily redeemable preferred stock are not included in the diluted earnings per share calculations because their effect was not dilutive for the periods presented. The weighted-average diluted shares outstanding for the three and six month periods ended June 30, 2005, exclude stock options to purchase approximately 4 million shares, and the weighted-average diluted shares outstanding for the three and six month periods ended June 30, 2004, exclude stock options to purchase approximately 13 million and 16 million shares, respectively, since such options have an exercise price in excess of the average market price of the company's common stock during the respective periods.

Share Repurchases – On October 26, 2004, the company's Board of Directors authorized a program to repurchase up to $1 billion of its outstanding common stock. The program commenced in November 2004 and is expected to be completed over a twelve to eighteen-month period. Share repurchases take place at management's discretion and under pre-established non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions. The company retires its common stock upon repurchase. During the three months ended June 30, 2005, the company repurchased 2.8 million shares at an average price of $55.22 per share, including commissions, under this share repurchase program. During the six months ended June 30, 2005, the company repurchased 9.2 million shares at an average price of $53.45 per share, including commissions, under this share repurchase program. From the inception of this program through June 30, 2005, the company has repurchased 14.6 million shares at an average price of $54.56 per share, including commissions.

8. TRW AUTO INVESTMENT

At December 31, 2004, the company owned 17 million common shares of TRW Automotive Holdings Corp. (TRW Auto), of which approximately 4 million shares were reported as available-for-sale securities and were recorded at their fair value of $83 million. The amount recorded reflected the corresponding publicly traded stock price of TRW Auto and is included in "Prepaid expenses and other current assets" as of December 31, 2004, in the accompanying Consolidated Condensed Statements of Financial Position. The remaining 13 million shares were carried at their cost of $130 million as of December 31, 2004, and are included in "Other assets" in the accompanying Consolidated Condensed Statements of Financial Position.

On March 11, 2005, the company sold 7.3 million of its TRW Auto common shares for $143 million, and recorded an after-tax gain of $45 million. The sale reduced the company's ownership of TRW Auto to 9.7 million common shares. The remaining investment is carried at cost of $97 million and included in "Other assets" as of June 30, 2005, in the accompanying Consolidated Condensed Statements of Financial Position as the shares were not registered or otherwise marketable as of that date. The company does not consider this investment to be critical to its ongoing business operations. Any future sale would be dependent upon the waiver of certain restrictions by TRW Auto, or the events described in the Second Amended and Restated Stockholders Agreement dated January 28, 2004, between the company and TRW Auto.

9. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

Goodwill and other purchased intangible assets balances are included in the identifiable assets of the segment to which they have been assigned. In accordance with SFAS No. 142, impairment tests are performed at least annually and more often as circumstances require. Any goodwill impairment, as well as the amortization of other purchased intangible assets, is charged against the respective segment's operating margin. The annual impairment test for all sectors except Mission Systems and Space Technology was performed as of April 30, 2005, with no indication of impairment. The impairment test for Mission Systems and Space Technology was

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performed as of November 30, 2004, with no indication of impairment. In performing the goodwill impairment tests, the company uses a discounted cash flow approach corroborated by comparative market multiples, where appropriate, to determine the fair value of reporting units.

The changes in the carrying amount of goodwill for the six months ended June 30, 2005, are as follows:

$ in millions	Electronic Systems	Ships	Information Technology	Mission Systems	Integrated Systems	Space Technology	Total
Balance as of December 31, 2004	$ 2,597	$ 3,630	$ 2,398	$ 4,265	$ 955	$ 3,337	$17,182
Goodwill acquired			319				319
Goodwill of businesses sold	(19)						(19)
Fair value adjustments to net assets acquired		(12)	(70)	(11)		(10)	(103)
Balance as of June 30, 2005	**$ 2,578**	**$ 3,618**	**$ 2,647**	**$ 4,254**	**$ 955**	**$ 3,327**	**$17,379**

Fair Value Adjustments to Net Assets Acquired – The changes in the Information Technology segment primarily consisted of purchase price allocations to reflect adjustments to the fair value of the assets acquired and liabilities assumed in relation to the acquisition of Integic (see Note 4). The remaining adjustments are primarily related to the recognition of a portion of the capital loss carryforward associated with the acquisition of TRW. Due to the uncertainty related to the company's ability to fully utilize this capital loss carryforward, a valuation allowance equal to the full amount of the related tax benefit was recorded as of the acquisition date. Any reduction to this valuation allowance is recorded as a reduction of goodwill.

Purchased Intangible Assets

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

	June 30, 2005			December 31, 2004		
$ in millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	**$ 2,591**	**$ (1,250)**	**$ 1,341**	$ 2,572	$ (1,146)	$ 1,426
Other purchased intangibles	**125**	**(63)**	**62**	110	(59)	51
Total	**$ 2,716**	**$ (1,313)**	**$ 1,403**	$ 2,682	$ (1,205)	$ 1,477

During the three months ended June 30, 2005, approximately $34 million of the Integic purchase price was allocated to purchased intangible assets with a weighted average life of 5 years. All of the company's purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an aggregate weighted-average period of 22 years. Aggregate amortization expense for the three and six months ended June 30, 2005, was $55 million and $108 million, respectively.

The table below shows expected amortization for purchased intangibles for the remainder of 2005 and for the next five years:

$ in millions	
Year Ended December 31	
2005 (July 1 to December 31)	$ 112
2006	135
2007	122
2008	111
2009	98
2010	79

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10. RETIREMENT BENEFITS

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

	Three months ended June 30				Six months ended June 30			
	Pension Benefits		Medical and Life Benefits		Pension Benefits		Medical and Life Benefits	
$ in millions	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Components of Net Periodic Benefit Cost								
Service cost	**$ 169**	$ 140	**$ 16**	$ 14	**$ 338**	$ 281	**$ 34**	$ 28
Interest cost	**273**	261	**46**	45	**546**	524	**91**	89
Expected return on plan assets	**(367)**	(344)	**(13)**	(12)	**(734)**	(688)	**(25)**	(24)
Amortization of:								
Prior service costs	**13**	13			**26**	26		
Net loss from previous years	**15**	15	**7**	2	**30**	28	**13**	4
Other		1				6		
Net periodic benefit cost	**$ 103**	$ 86	**$ 56**	$ 49	**$ 206**	$ 177	**$ 113**	$ 97
Defined contribution plans cost	**$ 64**	$ 52			**$ 127**	$ 107		

Restatement for Medicare Part D Subsidy – The net periodic benefit cost of medical and life benefits for the three months ended June 30, 2004, have been restated in the table above to reflect a reduction of $1 million in interest cost and $2 million in actuarial loss. The net periodic benefit cost of medical and life benefits for the six months ended June 30, 2004, have been restated in the table above to reflect a reduction of $3 million in interest cost and $4 million in actuarial loss (see Note 1).

Employer Contributions – The company expects to contribute approximately $205 million to its pension plans and approximately $184 million to its medical and life benefit plans in 2005. As of June 30, 2005, contributions of $59 million and $80 million have been made to the company's pension plans and its medical and life benefit plans, respectively.

11. LITIGATION, COMMITMENTS, AND CONTINGENCIES

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

Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the company, and the results of such investigations may lead to administrative, civil, or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts. Based on available information, the company does not believe, but can give no assurance, that any matter resulting from a U.S. Government investigation would have a material adverse effect on its financial position, results of operations, or cash flows.

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Contract Performance Contingencies – Contract performance evaluations may include estimates of costs not contractually agreed to between the customer and the company for matters such as contract changes, negotiated settlements and claims 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 performance to the extent of expected recovery based on contractual entitlements and the probability of successful negotiation with the customer. As of June 30, 2005, the amounts are not material individually or in the aggregate.

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

Environmental Matters – In accordance with company policy on environmental remediation, the estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency, or similarly designated by other environmental agencies. To assess the potential impact on the company's consolidated financial statements, management estimates the total reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that at June 30, 2005, the range of reasonably possible future costs for environmental remediation sites is $270 million to $368 million, of which $276 million is accrued. Factors that could result in changes to the company's estimate include: modification of planned remedial actions, increase or decrease in the estimated time required to remediate, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the company may have to incur costs in addition to those already estimated and accrued. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's financial position, results of operations, or cash flows.

Co-Operative Agreements – In July and August of 2003, Ship Systems executed agreements with the states of Mississippi and Louisiana, respectively, whereby Ship Systems will lease facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Ship Systems to these states. Under the Mississippi agreement, Ship Systems is required to match the state's funding with Modernization, and Sustaining & Maintenance expenditures in the amount of $313 million and create up to 2,000 new full-time jobs in Mississippi by December 2009. As of June 30, 2005, $100 million has been appropriated by Mississippi requiring an increase of 1,334 jobs. Under the Louisiana agreement, Ship Systems is required to match the state's funding with expenditures in the amount of $56 million through 2007, and employ a minimum of 5,200 full-time employees in 16 of the 32 fiscal quarters beginning January 1, 2003, and ending December 31, 2010. As of June 30, 2005, commitments for 10 of the 16 quarters have been fulfilled. Failure by Ship Systems to meet these commitments would result in reimbursement by Ship Systems to Mississippi and Louisiana in accordance with the respective agreements. As of June 30, 2005, management believes that all commitments under the Louisiana and Mississippi agreements have been met, and that all future commitments under these agreements will be met based on the most recent Ship Systems business plan, which includes the company's current understanding of the customer's DD(X) acquisition strategy.

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Financial Arrangements – In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company's self-insured workers' compensation plans. At June 30, 2005, there were $472 million of unused stand-by letters of credit, $120 million of bank guarantees, and $537 million of surety bonds outstanding.

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

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

12. STOCK-BASED COMPENSATION

The company applies Accounting Principles Board Opinion 25 – *Accounting for Stock Issued to Employees* and related interpretations in accounting for awards made under the company's stock-based compensation plans. When stock options are exercised, the amount of the cash proceeds to the company, along with the related tax benefit, is recorded as an increase to paid-in capital. Compensation expense for restricted performance stock rights and restricted stock rights is estimated and accrued over the vesting period.

On May 16, 2005, the Compensation and Management Development Committee of the company's board of directors approved accelerating the vesting for all outstanding unvested employee stock options (excluding options held by elected officers), effective September 30, 2005. The accelerated options have a weighted average exercise price of $51 with original vesting through April 2009. The charge associated with the acceleration of vesting is not significant.

The company's decision to accelerate the vesting of employee stock options was made pursuant to management's ongoing evaluation of the company's overall incentive compensation strategy, including type of future stock-based compensation awards. As part of its evaluation, management considered the amount of compensation expense that would otherwise have been recognized in the company's results of operations upon the adoption of SFAS No. 123(R) effective January 1, 2006. The acceleration of employee stock options is expected to increase the company's pro forma compensation expense for 2005 by approximately $90 million, of which approximately $30 million is included in the pro forma disclosure below, and approximately $60 million will be included in the third quarter pro forma disclosure.

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Had compensation expense been determined based on the fair value at the grant dates for stock awards, consistent with the method of SFAS No. 123 – *Accounting for Stock-Based Compensation*, net income, basic earnings per share, and diluted earnings per share would have been as shown in the table below.

	Three months ended June 30		Six months ended June 30	
$ in millions, except per share	**2005**	2004	**2005**	2004
Net income as reported	**$ 367**	$ 298	**$ 776**	$ 534
Stock-based compensation, net of tax, included in net income as reported	**25**	26	**41**	48
Stock-based compensation, net of tax, that would have been included in net income, if the fair value method had been applied to all awards	**(57)**	(31)	**(84)**	(60)
Pro-forma net income using the fair value method	**$ 335**	$ 293	**$ 733**	$ 522
Basic Earnings Per Share				
As reported	**$ 1.02**	$ .83	**$ 2.16**	$ 1.48
Pro-forma	**$ .93**	$ .82	**$ 2.04**	$ 1.45
Diluted Earnings Per Share				
As reported	**$ 1.00**	$ .82	**$ 2.12**	$ 1.47
Pro-forma	**$ .92**	$ .81	**$ 2.00**	$ 1.43

NORTHROP GRUMMAN CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated condensed statement of financial position of Northrop Grumman Corporation and subsidiaries as of June 30, 2005, and the related consolidated condensed statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2005 and 2004, and the related consolidated condensed statements of cash flows and changes in shareholders' equity for the six-month periods ended June 30, 2005 and 2004. These interim financial statements are the responsibility of the Corporation's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2004, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated March 1, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed statement of financial position as of December 31, 2004 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
July 27, 2005

NORTHROP GRUMMAN CORPORATION

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

OVERVIEW

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

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

The following discussion should be read along with the company's 2004 Annual Report on Form 10-K filed with the Securities and Exchange Commission, and with the unaudited condensed consolidated financial statements included in this Form 10-Q.

CONSOLIDATED RESULTS

Selected financial highlights are presented in the table below. The operating margin, income, and earnings per share data for the three and six months ended June 30, 2004, have been restated to reflect the reclassification of certain CT businesses and the federal subsidy resulting from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (see Note 1 to the Consolidated Condensed Financial Statements in Part I, Item 1).

	Three months ended June 30		Six months ended June 30	
$ in millions, except per share	**2005**	2004	**2005**	2004
Sales and service revenues	**$ 7,962**	$ 7,435	**$ 15,415**	$ 14,599
Operating margin	**616**	493	**1,211**	931
Income from continuing operations	**366**	298	**764**	530
Net income	**367**	298	**776**	534
Diluted earnings per share from continuing operations	**1.00**	.82	**2.09**	1.46
Diluted earnings per share	**1.00**	.82	**2.12**	1.47
Net cash provided by operating activities	**813**	610	**1,076**	873

Sales and Service Revenues

Sales and service revenues for the three months and six months ended June 30, 2005, increased $527 million, or 7 percent, and $816 million, or 6 percent, respectively, as compared to the same periods in 2004. The increase in the three-month period reflects growth among all sectors including double-digit growth in the Integrated Systems and Electronic Systems operating segments. The increase in the six-month period also reflects growth among all sectors, including double-digit growth for the Integrated Systems operating segment.

Operating Margin

Operating margin for the three months ended June 30, 2005, increased by $123 million, or 25 percent, over the same period in 2004, primarily due to an increase of $107 million in segment operating performance and lower unallocated expenses and net pension expense.

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Operating margin for the six months ended June 30, 2005, increased $280 million, or 30 percent, over the same period in 2004, reflecting an increase of $185 million in segment operating performance and a decrease of $85 million in unallocated expenses. The decrease in unallocated expenses is primarily due to a first quarter 2004 provision of $62 million related to the resolution of the Allison Gas Turbine litigation, as well as lower unrecoverable costs for the 2005 period.

Income from Continuing Operations

Income from continuing operations for the three months ended June 30, 2005, increased $68 million, or 23 percent, over the same period in 2004, primarily reflecting strong operating margin performance. The effective tax rate was 33.9 percent for the three months ended June 30, 2005, compared to 25.5 percent for the same period in 2004, which included $31 million of tax credits related to research and development and export sales activities.

Income from continuing operations for the six months ended June 30, 2005, increased $234 million, or 44 percent, over the same period in 2004. The increase primarily reflects strong segment operating margin performance and the recognition of an after-tax gain of $45 million from the sale of common shares of TRW Automotive Holdings Corp. (TRW Auto) in the first quarter of 2005. The effective tax rate was 33.6 percent for the six months ended June 30, 2005, compared to 29.4 percent for the same period in 2004.

Net Income

Net income for the three months and six months ended June 30, 2005, increased $69 million, or 23 percent, and $242 million, or 45 percent, respectively, as compared to the same periods in 2004. The gain on disposal of discontinued operations during the six months ended June 30, 2005, included a $10 million after-tax gain from the divestiture of Teldix GmbH (Teldix) by the Electronic Systems segment.

Net Cash Provided by Operating Activities

Net cash provided by operating activities for the three months ended June 30, 2005, increased by $203 million, or 33 percent, as compared with the same period of 2004, primarily due to timing of cash receipts. Net cash from operating activities for the three months ended June 30, 2005, included the receipt of a state tax refund for research and development credits for the years 1988 through 1990 and related interest.

Net cash provided by operating activities for the six months ended June 30, 2005, increased by $203 million, or 23 percent, as compared with the same period of 2004, primarily due to timing of cash receipts. Net cash from operating activities for the six months ended June 30, 2005, reflects a payment of $99 million for a litigation settlement. Net cash from operating activities for the six months ended June 30, 2004, included the receipt of $104 million of federal and state income tax refunds.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

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

There have been no changes in the company’s critical accounting policies during the six months ended June 30, 2005.

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SEGMENT OPERATING RESULTS

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

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

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

Segment Operating Margin – Segment operating margin reflects the performance of segment contracts and programs. Excluded from this measure are certain costs not directly associated with contract performance, including the portion of pension expense/income that is not currently recognized under CAS, as well as the portion of corporate, legal, environmental, state income tax, other retiree benefits, and other expenses not considered allowable costs under CAS and therefore not allocated to the segments.

Effective January 1, 2005, certain business areas within the Electronic Systems, Ships and Space Technology segments were realigned and some business areas have been renamed. Where applicable, all prior period information has been reclassified to reflect these realignments and references to business areas in the discussion below reflect the new names.

Contract Acquisitions and Sales and Service Revenues in the tables within this section include intercompany amounts that are eliminated in the accompanying Consolidated Condensed Financial Statements.

ELECTRONIC SYSTEMS

	Three months ended June 30		Six months ended June 30	
$ in millions	**2005**	2004	**2005**	2004
Contract Acquisitions	**$ 1,393**	$ 1,489	**$ 3,065**	$ 3,261
Sales and Service Revenues	**1,765**	1,591	**3,308**	3,129
Segment Operating Margin	**198**	138	**359**	296
As a percentage of segment sales	***11.2%***	*8.7%*	***10.9%***	*9.5%*

Contract Acquisitions
Electronic Systems segment contract acquisitions for the three months ended June 30, 2005, decreased $96 million, or 6 percent, as compared with the same period in 2004. The decrease was primarily due to lower incremental funding for a restricted program within the Aerospace Systems business area. Significant acquisitions during the three months ended June 30, 2005 included $116 million of incremental funding for two restricted programs in the Aerospace Systems business area and $79 million for the Eurofighter program in the Defensive & Navigation Systems business area.

Electronic Systems segment contract acquisitions for the six months ended June 30, 2005, decreased $196 million, or 6 percent, as compared with the same period in 2004. The decrease is primarily due to $205 million in backlog foregone as a result of the sale of Teldix. Lower levels of incremental funding for the Aerospace Systems business area in the second quarter of 2005 were offset by accelerated funding for restricted programs in the Naval & Marine Systems business area in the first quarter.

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Sales and Service Revenues
Electronic Systems segment sales for the three months ended June 30, 2005, increased $174 million, or 11 percent, as compared with the same period in 2004. The increase was primarily due to higher sales in the Aerospace Systems, Defensive & Navigation Systems and Government Systems business areas, partially offset by lower sales in the Defense Other business area. Aerospace Systems revenues increased $97 million, or 26 percent, and Defense Other decreased $49 million, or 24 percent, primarily due to the transition of a restricted program from the Defense Other business area to the Aerospace Systems business area. Defensive & Navigation Systems revenues increased $69 million, or 15 percent, primarily due to higher sales for the Large Aircraft Infrared Countermeasures (LAIRCM) and EA-18 programs. Government Systems revenues increased $45 million, or 25 percent, primarily due to higher sales of biohazard detection systems.

Electronic Systems segment sales for the six months ended June 30, 2005, increased $179 million, or 6 percent, as compared with the same period in 2004. The increase was primarily due to revenue growth in the Defensive & Navigation Systems, Aerospace Systems, and Government Systems business areas, partially offset by lower sales in the Defense Other business area. Defensive & Navigation Systems revenues increased $103 million, or 11 percent, primarily due to higher sales for the LAIRCM and EA-18 programs. Aerospace Systems revenues increased $94 million, or 12 percent, and Defense Other decreased $103 million, or 25 percent, primarily due to the transition of a restricted program from the Defense Other business area to the Aerospace Systems business area. Government Systems revenues increased $91 million, or 30 percent, primarily due to higher sales of bio-detection systems.

Segment Operating Margin
Electronic Systems segment operating margin for the three months ended June 30, 2005, increased $60 million, or 43 percent, as compared with the same period in 2004. Operating margin for the three months ended June 30, 2004, included a $60 million pre-tax charge in the Aerospace Systems business area for the F-16 Block 60 program, partially offset by performance improvements and contract closeouts for several other programs. The increase in operating margin also reflects higher sales volume and improved performance in the Government Systems business area.

Electronic Systems segment operating margin for the six months ended June 30, 2005, increased $63 million, or 21 percent, as compared to the same period in 2004. The increase in operating margin is primarily attributable to the factors stated above.

SHIPS

	Three months ended June 30		Six months ended June 30	
$ in millions	**2005**	2004	**2005**	2004
Contract Acquisitions	**$ 321**	$ 592	**$ 1,487**	$ 2,110
Sales and Service Revenues	**1,587**	1,557	**3,101**	3,001
Segment Operating Margin	**101**	100	**205**	186
As a percentage of segment sales	***6.4%***	*6.4%*	***6.6%***	*6.2%*

Contract Acquisitions
Ships segment contract acquisitions for the three months ended June 30, 2005, decreased $271 million, or 46 percent, as compared with the same period in 2004, primarily due to the timing of funding for the CVN 21 development program in the Aircraft Carriers business area. Significant acquisitions during the three months ended June 30, 2005, included $75 million for the LPD program in the Expeditionary Warfare business area, as well as $47 million for the DD(X) program and $29 million for the DDG program in the Surface Combatants business area.

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Ships segment contract acquisitions for the six months ended June 30, 2005, decreased $623 million, or 30 percent, as compared with the same period in 2004, primarily due to the timing of Virginia-class Block II funding. Significant acquisitions during the six months ended June 30, 2005, included $466 million for the Virginia-class Block II program in the Submarines business area, $241 million for the LPD program in the Expeditionary Warfare business area, $238 million for the *Washington* Dry Docking Planned Incremental Availability (DPIA) program in the Aircraft Carrier business area, and $142 million for the Deepwater program in the Coast Guard and Coastal Defense business area.

Sales and Service Revenues

Ships segment sales for the three months ended June 30, 2005, increased $30 million, or 2 percent, as compared with the same period in 2004. The increase was primarily due to higher sales in the Expeditionary Warfare, Submarines, and Aircraft Carriers business areas, partially offset by lower sales in the Surface Combatants business area. Expeditionary Warfare revenue increased $70 million, or 20 percent, due to higher sales in the LPD and LHD programs. Submarines revenue increased $20 million, or 11 percent, due to higher sales in the Virginia-class Block II program. Aircraft Carriers revenue increased $16 million, or 3 percent, primarily due to higher volume for the *Washington* DPIA program, partially offset by lower sales due to the redelivery of *Eisenhower* in the first quarter of 2005. Surface Combatants revenue decreased $79 million, or 16 percent, due to lower DD(X) Phase III revenues.

Ships segment sales for the six months ended June 30, 2005, increased $100 million, or 3 percent, as compared with the same period in 2004. The increase was primarily due to revenue growth in the Expeditionary Warfare, Submarines, and Coast Guard and Coastal Defense business areas, partially offset by lower sales in the Surface Combatants business area. Expeditionary Warfare revenue increased $146 million, or 22 percent, due to higher sales of LPD and LHD. Submarines revenue increased $40 million, or 12 percent, primarily due to higher sales in the Virginia-class Block II program. Coast Guard and Coastal Defense revenue increased $36 million, or 78 percent, due to increased sales in the Maritime Security Large National Security Cutter program. Surface Combatants revenues decreased $96 million, or 10 percent, primarily due to lower sales of DDG and DD(X).

Segment Operating Margin

Ships segment operating margin for the three months ended June 30, 2005, increased $1 million, or 1 percent, as compared with the same period in 2004. This reflects an increase in the Aircraft Carrier business area from favorable performance on *Eisenhower*, offset by lower performance in the Surface Combatants business area due to changes in the DD(X) program, and in the Expeditionary Warfare business area due to lower performance on the LPD program.

Ships segment operating margin for the six months ended June 30, 2005, increased $19 million, or 10 percent, as compared to the same period in 2004. The increase is primarily due to increases in the Expeditionary Warfare business area from higher sales volume and improved performance in the LHD program, and in the Aircraft Carriers business area due to favorable performance on *Eisenhower*, partially offset by a decrease in the Surface Combatants business area due to changes in the DD(X) program.

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INTEGRATED SYSTEMS

	Three months ended June 30		Six months ended June 30	
$ in millions	**2005**	2004	**2005**	2004
Contract Acquisitions	**$ 667**	$ 820	**$ 2,606**	$ 2,588
Sales and Service Revenues	**1,404**	1,133	**2,703**	2,280
Segment Operating Margin	**108**	90	**244**	206
As a percentage of segment sales	***7.7%***	*7.9%*	***9.0%***	*9.0%*

Contract Acquisitions
Integrated Systems segment contract acquisitions for the three months ended June 30, 2005, decreased $153 million, or 19 percent, as compared with the same period in 2004, reflecting decreased acquisitions in all business areas primarily due to timing of funding. The principal acquisitions for the Air Combat Systems business area in the second quarter of 2005, were $202 million, $80 million, and $73 million for the Unmanned Systems, F/A-18, and F-35 programs, respectively. The principal acquisition for the Airborne Early Warning and Electronic Warfare Systems business area was $141 million for the E-2 program.

Integrated Systems segment contract acquisitions for the six months ended June 30, 2005, increased $18 million, or 1 percent, as compared with the same period in 2004. The increase was primarily due to increased acquisitions in the Air Combat Systems business area, partially offset by decreased acquisitions in the Airborne Ground Surveillance and Battle Management Systems business area. The principal acquisitions for Air Combat Systems for the six months ended June 30, 2005, were $723 million and $415 million for the F/A-18 and Unmanned Systems programs, respectively. The principal acquisitions for the Airborne Early Warning and Electronic Warfare Systems business area were $300 million and $120 million for the E-2 and EA-18G programs, respectively, and the Airborne Ground Surveillance and Battle Management Systems business area had acquisitions of $92 million for the Joint Surveillance Target Attack Radar System (Joint STARS) program.

Sales and Service Revenues
Integrated Systems segment sales for the three months ended June 30, 2005, increased $271 million, or 24 percent, as compared with the same period in 2004. The increase was primarily due to revenue growth in the Air Combat Systems and Airborne Early Warning and Electronic Warfare Systems business areas. Air Combat Systems revenue increased $148 million, or 22 percent, primarily due to higher sales in the Unmanned Systems Joint Unmanned Combat Air System (J-UCAS) program. Airborne Early Warning and Electronic Warfare Systems revenue increased $121 million, or 38 percent, due to higher sales in the E-2 Advanced Hawkeye and EA-18G programs.

Integrated Systems segment sales for the six months ended June 30, 2005, increased $423 million, or 19 percent, as compared with the same period in 2004. The increase was primarily due to revenue growth in the Air Combat Systems and Airborne Early Warning and Electronic Warfare Systems business areas. Air Combat Systems revenue increased $222 million, or 16 percent, due to higher sales in the Unmanned Systems J-UCAS program and increased scope on various contracts. Airborne Early Warning and Electronic Warfare Systems revenues increased $214 million, or 36 percent, primarily due to higher sales in the E-2 Advanced Hawkeye and EA-18G programs.

Segment Operating Margin
Integrated Systems segment operating margin for the three months ended June 30, 2005, increased $18 million, or 20 percent, as compared with the same period in 2004, primarily due to increased sales as described above. Operating margin as a percentage of segment sales for the three months ended June 30, 2005, decreased as compared with the same period in 2004, primarily due to favorable contract closeouts for the Joint STARS program in the 2004 period.

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Integrated Systems segment operating margin for the six months ended June 30, 2005, increased $38 million, or 18 percent, as compared to the same period in 2004. The increase primarily reflects higher sales volume and improved performance in the Air Combat Systems and Airborne Early Warning and Electronic Warfare Systems business areas.

MISSION SYSTEMS

	Three months ended June 30		Six months ended June 30	
$ in millions	**2005**	2004	**2005**	2004
Contract Acquisitions	**$ 1,157**	$ 990	**$ 2,412**	$ 2,326
Sales and Service Revenues	**1,320**	1,298	**2,625**	2,481
Segment Operating Margin	**99**	86	**190**	162
As a percentage of segment sales	***7.5%***	*6.6%*	***7.2%***	*6.5%*

Contract Acquisitions
Mission Systems segment contract acquisitions for the three months ended June 30, 2005, increased $167 million, or 17 percent, as compared with the same period in 2004. During the three months ended June 30, 2005, acquisition growth primarily reflects higher funding in the Command, Control & Intelligence Systems business area and $75 million of funding for the Kinetic Energy Interceptors program in the Missile Systems business area.

Mission Systems segment contract acquisitions for the six months ended June 30, 2005, increased $86 million, or 4 percent, as compared with the same period in 2004. Acquisition growth during the six months ended June 30, 2005, was primarily related to the Missile Systems business area which included $75 million of funding for the Kinetic Energy Interceptors program.

Sales and Service Revenues
Mission Systems segment sales for the three months ended June 30, 2005, increased $22 million, or 2 percent, as compared with the same period in 2004, primarily reflecting increased sales volume in the Missile Systems business area. The increase in the Missile Systems business area of $32 million, or 9 percent, was related to the Kinetic Energy Interceptors program and the Intercontinental Ballistic Missile program and was partially offset by lower sales of $12 million, or 6 percent, within the Technical & Management Services business area.

Mission Systems segment sales for the six months ended June 30, 2005, increased $144 million, or 6 percent, as compared with the same period in 2004, reflecting increased sales volume in the Missile Systems and Command, Control & Intelligence Systems business areas. The increase in the Missile Systems business area of $100 million, or 16 percent, was primarily related to the Kinetic Energy Interceptors program and the Intercontinental Ballistic Missile program. The increase in revenue for new and existing programs in the Command, Control & Intelligence Systems business area of $65 million, or 4 percent, includes lower sales related to the TASS II program that contributed $126 million in revenue in the same period in 2004. The combined higher sales for the Missile Systems and Command, Control & Intelligence Systems business areas offset lower sales in the Technical & Management Services business area.

Segment Operating Margin
Mission Systems segment operating margin for the three months ended June 30, 2005, increased $13 million, or 15 percent, as compared with the same period in 2004. The increase was primarily due to favorable performance on the Intercontinental Ballistic Missile program in the Missile Systems business area.

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Mission Systems segment operating margin for the six months ended June 30, 2005, increased $28 million, or 17 percent, as compared to the same period in 2004. The increase in operating margin primarily reflects higher sales volume, favorable performance on the Intercontinental Ballistic Missile program, and improved performance in the Command, Control & Intelligence Systems business area.

INFORMATION TECHNOLOGY

	Three months ended June 30		Six months ended June 30	
$ in millions	**2005**	2004	**2005**	2004
Contract Acquisitions	**$ 1,505**	$ 1,207	**$ 2,811**	$ 2,401
Sales and Service Revenues	**1,331**	1,225	**2,560**	2,455
Segment Operating Margin	**89**	73	**174**	144
As a percentage of segment sales	**6.7%**	6.0%	**6.8%**	5.9%

Contract Acquisitions
Information Technology segment contract acquisitions for the three months ended June 30, 2005, increased $298 million, or 25 percent, as compared with the same period in 2004. Significant acquisitions during the three months ended June 30, 2005, included $244 million for the United Kingdom Whole Life Support Program and $42 million for the National Geospatial-Intelligence Agency Enterprise Engineering program in the Government Information Technology business area, in addition to $42 million for the Joint Base Operations Support Contract in the Technology Services business area.

Information Technology segment contract acquisitions for the six months ended June 30, 2005, increased $410 million, or 17 percent, as compared with the same period in 2004. Significant acquisitions during the six months ended June 30, 2005, included $244 million for the United Kingdom Whole Life Support Program in the Government Information Technology business area, $163 million for the Joint Base Operations Support Contract in the Technology Services business area, and $109 million for the Vought program in the Commercial Information Technology business area.

Sales and Service Revenue
Information Technology segment sales for the three months ended June 30, 2005, increased $106 million, or 9 percent, as compared with the same period in 2004. The increase was primarily due to the Government Information Technology and Technology Services business areas. Government Information Technology revenue increased $104 million, or 14 percent, due to higher volume in existing programs, new program awards, and the acquisition of Integic. Technology Services revenue increased $24 million, or 16 percent, primarily due to increased volume on various existing programs. The sales increases in the Government Information Technology and Technology Services business areas were partially offset by a decrease of $40 million, or 20 percent, in the Enterprise Information Technology business area due to overall market softness and increased competition in the value-added reseller marketplace.

Information Technology segment sales for the six months ended June 30, 2005, increased $105 million, or 4 percent, as compared with the same period in 2004. The increase was primarily due to revenue growth in the Government Information Technology and Technology Services business areas. Government Information Technology revenue increased $107 million, or 7 percent, due to higher volume in existing programs, new program awards, and the acquisition of Integic. Technology Services revenues increased $35 million, or 11 percent, primarily due to increased volume on the Joint Base Operations Support Contract. The sales increases in the Government Information Technology and Technology Services business areas were partially offset by a decrease of $49 million, or 13 percent, in the Enterprise Information Technology business area due to overall market softness and increased competition in the value-added reseller marketplace.

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Segment Operating Margin
Information Technology segment operating margin for the three months ended June 30, 2005, increased $16 million, or 22 percent, as compared with the same period in 2004. The increase was primarily due to higher sales volume and performance improvements in the Government Information Technology business area, partially offset by lower performance in the Enterprise Information Technology business area.

Information Technology segment operating margin for the six months ended June 30, 2005, increased $30 million, or 21 percent, as compared to the same period in 2004. The increase primarily reflects higher sales volume and improved program performance in the Government Information Technology and Commercial Information Technology business areas, partially offset by lower performance in the Enterprise Information Technology business area.

SPACE TECHNOLOGY

	Three months ended June 30		Six months ended June 30	
$ in millions	**2005**	2004	**2005**	2004
Contract Acquisitions	**$ 737**	$ 552	**$ 1,610**	$ 1,685
Sales and Service Revenues	**875**	836	**1,738**	1,642
Segment Operating Margin	**69**	61	**131**	112
As a percentage of segment sales	***7.9%***	*7.3%*	***7.5%***	*6.8%*

Contract Acquisitions
Space Technology segment contract acquisitions for the three months ended June 30, 2005, increased $185 million, or 34 percent, as compared with the same period in 2004. Principal acquisitions during the three months ended June 30, 2005, included $267 million for restricted programs in the Intelligence, Surveillance, and Reconnaissance business area and $155 million for the National Polar-orbiting Operational Environmental Satellite System (NPOESS) program in the Civil Space business area.

Space Technology segment contract acquisitions for the six months ended June 30, 2005, decreased $75 million, or 4 percent, as compared with the same period in 2004. Principal acquisitions during the six months ended June 30, 2005, included $383 million for restricted programs in the Intelligence, Surveillance, and Reconnaissance business area; $299 million for NPOESS and $105 million for the James Webb Space Telescope in the Civil Space business area; and $156 million for the F-35 and $93 million for the F/A-22 in the Software Defined Radios business area.

Sales and Service Revenue
Space Technology segment sales for the three months ended June 30, 2005, increased $39 million, or 5 percent, as compared with the same period in 2004. The increase was primarily due to higher sales in the Civil Space and Intelligence, Surveillance, and Reconnaissance business areas. Civil Space revenue increased $35 million, or 21 percent, due to higher sales from NPOESS and the James Webb Space Telescope programs. Intelligence, Surveillance, and Reconnaissance revenue increased $32 million, or 12 percent, primarily due to higher sales in restricted programs. The sales increases in the Civil Space and Intelligence, Surveillance, and Reconnaissance business areas were partially offset by decreases of $18 million, or 14 percent, in the Missile & Space Defense business area and $14 million, or 11 percent, in the Satellite Communications business area, primarily due to lower subcontractor costs.

Space Technology segment sales for the six months ended June 30, 2005, increased $96 million, or 6 percent, as compared with the same period in 2004. The increase was primarily due to revenue growth in the Civil Space and Intelligence, Surveillance, and Reconnaissance business areas. Civil Space revenue increased $93 million, or 29

percent, due to higher sales from NPOESS and the James Webb Space Telescope programs. Intelligence, Surveillance, and Reconnaissance revenues increased $85 million, or 17 percent, primarily due to higher sales in restricted programs. The sales increase in the Civil Space and Intelligence, Surveillance, and Reconnaissance business areas were partially offset by a decrease of $55 million, or 20 percent, in the Satellite Communications business area due to lower subcontractor costs.

Segment Operating Margin
Space Technology segment operating margin for the three months ended June 30, 2005, increased $8 million, or 13 percent, as compared with the same period in 2004. The increase was primarily due to higher sales volume in the Civil Space and Intelligence, Surveillance, and Reconnaissance business areas, and improved performance in the Missile & Space Defense business area.

Space Technology segment operating margin for the six months ended June 30, 2005, increased $19 million, or 17 percent, as compared to the same period in 2004. The increase in operating margin primarily reflects higher sales volume in the Intelligence, Surveillance, and Reconnaissance and Civil Space business areas and performance improvements in the Intelligence, Surveillance, and Reconnaissance and Missile & Space Defense business areas.

NON-SEGMENT FACTORS AFFECTING OPERATING MARGIN

The components of operating margin are as follows:

	Three months ended June 30		Six months ended June 30	
$ in millions	**2005**	2004	**2005**	2004
Segment Operating Margin				
Electronic Systems	**$ 198**	$ 138	**$ 359**	$ 296
Ships	**101**	100	**205**	186
Integrated Systems	**108**	90	**244**	206
Mission Systems	**99**	86	**190**	162
Information Technology	**89**	73	**174**	144
Space Technology	**69**	61	**131**	112
Other	**(5)**	4	**(6)**	6
Non-segment Factors Affecting Operating Margin				
Unallocated expenses	**(42)**	(47)	**(69)**	(154)
Pension expense	**(103)**	(86)	**(206)**	(177)
Reversal of CAS pension expense included above	**105**	77	**197**	157
Reversal of royalty income included above	**(3)**	(3)	**(8)**	(7)
Total operating margin	**$ 616**	$ 493	**$ 1,211**	$ 931

Operating margin as a percentage of total sales and service revenue was 7.7 percent and 6.6 percent for the three months ended June 30, 2005, and 2004, respectively and 7.9 percent and 6.4 percent for the six months ended June 30, 2005, and 2004, respectively. The primary non-segment factors affecting operating margin during these periods were decreases in unallocated expenses and net pension expense.

Unallocated Expenses
Unallocated expenses for the three and six months ended June 30, 2005, decreased $5 million, or 11 percent, and $85 million, or 55 percent, respectively, as compared with the same periods of 2004. The decrease in unallocated expenses for the six months ended June 30, 2005, is primarily due to lower legal and unrecoverable costs. Legal

costs for the six months ended June 30, 2004, included a $62 million provision related to the resolution of the Allison Gas Turbine litigation.

Pension Expense

Pension expense for the three and six months ended June 30, 2005, increased $17 million, or 20 percent, and $29 million, or 16 percent, respectively, as compared with the same periods of 2004. The increase reflects changes in actuarial assumptions partially offset by actual 2004 asset returns of greater than 13 percent.

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

OTHER SIGNIFICANT INCOME STATEMENT COMPONENTS

Interest Income

Interest income for the three and six months ended June 30, 2005, increased $9 million, or 56 percent, and $7 million, or 22 percent, respectively, as compared with the same periods in 2004. The increases were primarily due to interest received in relation to a state tax refund for research and development credits and higher interest earned on the temporary investment of excess cash.

Interest Expense

Interest expense for the three and six months ended June 30, 2005, decreased $18 million, or 16 percent, and $36 million, or 16 percent, respectively, as compared with the same periods in 2004. The decreases were primarily due to lower outstanding debt.

Other, Net

Other, net for the three and six months ended June 30, 2005, increased $4 million and $76 million, respectively, as compared with the same periods in 2004. The increase for the six-month period was primarily due to the pre-tax gain of $70 million recognized from the sale of TRW Auto shares in the first quarter of 2005.

Income Taxes

The company's effective tax rate on income from continuing operations for the three months ended June 30, 2005, was 33.9 percent as compared to 25.5 percent for the same period in 2004. During the second quarter of 2004, the company completed studies and recognized additional tax credits of $31 million related to research and development and export sales activities for the years 1997 through 2003.

The company's effective tax rate on income from continuing operations for the six months ended June 30, 2005, was 33.6 percent compared to 29.4 percent for the same period in 2004.

Discontinued Operations

The after-tax gain on disposal of discontinued operations during the three and six months ended June 30, 2005, of $1 million and $12 million, respectively, is primarily due to the divestiture of Teldix. See Note 5 to the Consolidated Condensed Financial Statements in Part I, Item 1.

BACKLOG

Total backlog includes both funded backlog (unfilled orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded Indefinite Delivery/Indefinite Quantity (IDIQ) orders. Backlog is converted into sales as work is performed or deliveries are made.

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

	June 30, 2005		
$ in millions	Funded	Unfunded	Total Backlog
Electronic Systems	$ 6,535	$ 1,725	$ 8,260
Ships	7,551	3,350	10,901
Integrated Systems	4,594	8,767	13,361
Mission Systems	2,954	7,585	10,539
Information Technology	2,819	3,184	6,003
Space Technology	1,621	6,956	8,577
Other	33		33
Intersegment Eliminations	(563)		(563)
Total	$25,544	$ 31,567	$ 57,111

Major components in unfunded backlog as of June 30, 2005, included various restricted programs, the Kinetic Energy Interceptors program in the Mission Systems segment; the F-35, F/A-18, and E-2 Advanced Hawkeye programs in the Integrated Systems segment; the National Polar-Orbiting Operational Environmental Satellite System program in the Space Technology segment; and Block 2 of the Virginia-class submarines program in the Ships segment.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities – For the six months ended June 30, 2005 and 2004, the company generated net cash from operating activities of $1.1 billion and $873 million, respectively. Net cash from operating activities for the six months ended June 30, 2005, reflects a payment of $99 million for a litigation settlement, partially offset by the receipt of a state tax refund for research and development credits for the years 1988 through 1990, and related interest. Net cash from operating activities for the six months ended June 30, 2004, included the receipt of $104 million of federal and state tax refunds.

For 2005, cash generated from operations supplemented by borrowings under credit facilities is expected to be sufficient to service debt and contract obligations, finance capital expenditures, and continue paying dividends to the company’s shareholders.

Investing Activities – Cash used in investing activities for the six months ended June 30, 2005, was $472 million compared to cash used of $162 million for the six months ended June 30, 2004. During the six months ended June 30, 2005, the company completed its acquisition of Integic for $313 million, sold 7.3 million common shares of TRW Auto for $143 million, and sold Teldix for $56 million.

As of June 30, 2005, the company owned approximately 3.5 million common shares of Endwave Corporation (Endwave – NASDAQ: ENWV). On March 25, 2005, Endwave announced that it had filed a registration statement with the Securities and Exchange Commission (SEC) to register for sale 5 million of its common shares of which 3 million was to be offered by Northrop Grumman. This registration statement was withdrawn by Endwave on June 15, 2005. Subsequent to June 30, 2005, the company sold 1.4 million of its Endwave shares for net proceeds of $59 million, and may sell additional shares from time to time in accordance with U.S. securities laws and regulations.

Financing Activities – Cash used in financing activities was $619 million for the six months ended June 30, 2005, as compared with $494 million used in the same period of 2004. During the six months ended June 30, 2005, and 2004, the company paid approximately $507 million and $295 million under common stock repurchase programs, respectively. See Note 7 to the Consolidated Condensed Financial Statements in Part I, Item 1.

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NEW ACCOUNTING STANDARDS

Management is currently evaluating the effect that adoption of new accounting pronouncements may have on the company's financial position or results of operations in future periods. See Note 2 to the Consolidated Condensed Financial Statements in Part I, Item 1.

FORWARD-LOOKING INFORMATION

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

Such "forward-looking" information includes, among other things, projected deliveries, expected funding for various programs, future effective income tax rates, financial guidance regarding sales, segment operating margin, pension expense, employer contributions under pension plans and medical and life benefits plans, and cash flow, and is subject to numerous assumptions and uncertainties, many of which are outside of Northrop Grumman's control. These include Northrop Grumman's assumptions with respect to future revenues, expected program performance and cash flows, returns on pension plan assets and variability of pension actuarial and related assumptions, the outcome of litigation and appeals, environmental remediation, divestitures of businesses, successful reduction of debt, effective tax rates and timing and amounts of tax payments, the results of any audit or appeal process with the Internal Revenue Service, and anticipated costs of capital investments, among other things.

Northrop Grumman's operations are subject to various additional risks and uncertainties resulting from its position as a supplier, either directly or as subcontractor or team member, to the U.S. Government and its agencies as well as to foreign governments and agencies; actual outcomes are dependent upon various factors, including, without limitation, Northrop Grumman's successful performance of internal plans; government customers' budgetary constraints; customer changes in short-range and long-range plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products and, in connection with any fixed price development programs, controlling cost growth in meeting production specifications and delivery rates; performance issues with key suppliers and subcontractors; government import and export policies; acquisition or termination of government contracts; the outcome of political and legal processes; natural disasters and terrorist acts; legal, financial, and governmental risks related to international transactions and global needs for military aircraft, military and civilian electronic systems and support, information technology, naval vessels, space systems and related technologies, as well as other economic, political and technological risks and uncertainties and other risk factors set out in Northrop Grumman's filings from time to time with the Securities and Exchange Commission, including, without limitation, Northrop Grumman reports on Form 10-K and Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rates – The company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include fixed-rate long-term debt obligations, variable-rate short-term debt outstanding under the credit agreement, and short-term investments. At June 30, 2005, substantially all borrowings were fixed-rate long-term debt obligations, none of which are callable until maturity (other than make-whole calls). The company's sensitivity to a 1 percent change in interest rates is tied primarily to its $2.5 billion credit agreement, which had no balance outstanding at June 30, 2005.

Derivatives – The company does not hold or issue derivative financial instruments for trading purposes. The company may enter into interest rate swap agreements to manage its exposure to interest rate fluctuations. At June 30, 2005, two interest rate swap agreements were in effect but were not significant.

Foreign Currency – The company enters into foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies. At June 30, 2005, the amount of foreign currency forward contracts outstanding was not material. The company does not consider its market risk exposure relating to foreign currency exchange to be material.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The company's principal executive officer (Chairman, Chief Executive Officer and President) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of June 30, 2005, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934 (15 USC § 78a et seq) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2005, no change occurred in the company's internal control over financial reporting that materially affected, or is likely to materially affect, the company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the company, and the results of such investigations may lead to administrative, civil, or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts. Based on available information, the company does not believe, but can give no assurance, that any matter resulting from a U.S. Government investigation would have a material adverse effect on its financial position, results of operations, or cash flows.

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

Purchases of Equity Securities – The table below summarizes the company's repurchases of common stock during the three months ended June 30, 2005.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2005, through April 30, 2005	909,469	$54.98	909,469	$ 304 million
May 1, 2005, through May 31, 2005	911,400	$54.86	911,400	$ 254 million
June 1, 2005, through June 30, 2005	935,900	$55.82	935,900	$ 202 million
Total	**2,756,769**	**$55.22**	**2,756,769**	

(1) On October 26, 2004, the company's Board of Directors authorized a program to repurchase up to $1 billion of its outstanding common stock to be completed over a twelve to eighteen-month period. Share repurchases take place at management's discretion and under pre-established non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with this publicly announced repurchase program.

(2) Includes commissions paid.

Item 3. Defaults Upon Senior Securities

No information is required in response to this item.

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

a) Annual Meeting –

The annual meeting of stockholders of Northrop Grumman Corporation was held May 17, 2005.

b) Election of Directors –

The following Class II Director nominees were elected at the annual meeting:

Phillip Frost
John Brooks Slaughter

The Directors whose terms of office continue are:

John T. Chain, Jr.
Lewis W. Coleman
Vic Fazio
Charles R. Larson
Philip A. Odeen
Aulana L. Peters
Kevin W. Sharer
Ronald D. Sugar

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

Directors:	Votes For	Votes Withheld
Phillip Frost	261,829,307	63,758,218
John Brooks Slaughter	290,275,003	35,312,522

	Votes For	Votes Against	Votes Abstaining	Broker Non-Votes
Ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors	316,360,785	6,792,603	2,434,137	0
Proposal amending the Company's Restated Certificate of Incorporation to provide for the annual election of directors	318,168,415	4,784,050	2,635,060	0
Proposal amending the 1993 Stock Plan for Non-Employee Directors to increase available shares	273,338,838	25,850,975	3,114,405	23,283,307
Shareholder Proposal regarding simple majority vote	222,033,002	76,305,656	3,965,560	23,283,307

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Item 5. Other Information

(a) Information Required to be Reported on Form 8-K

On July 26, 2005, the Compensation and Management Development Committee of the Board of Directors of the company approved the Separation Agreement and General Release (the “Agreement”) dated as of July 26, 2005, between the company and Dr. Philip A. Dur, a corporate vice president of the company and former president of the company’s Ship Systems sector. The Agreement provides severance benefits upon Dr. Dur’s retirement from the company, which will be no later than December 31, 2005, including a lump-sum cash payment, continued vesting in restricted performance stock rights and stock options, a 2005 performance year bonus and certain other benefits. In addition, the Agreement provides for a release by Dr. Dur of claims against the company and a covenant not to compete. A copy of the Agreement is filed as Exhibit 10.6 to this Form 10-Q.

On July 26, 2005, the Board of Directors of the company approved the Non-Employee Director Compensation Term Sheet, effective June 1, 2005. The Term Sheet, which is filed as Exhibit 10.7 to this Form 10-Q, increases the amount of the retainer fees paid to directors, Audit Committee members and chairs of Committees and eliminates separate attendance fees for each meeting. In addition, the amount of retainer fees deferred into stock units has been increased. There will be no future grants of stock options pursuant to the 1995 Stock Option Plan for Non-Employee Directors.

On July 26, 2005, the Board of Directors of the company approved the Northrop Grumman 1993 Stock Plan for Non-Employee Directors (as amended and restated July 26, 2005) (the “Plan”), which increases the portion of directors’ retainer fees that must be paid in stock and provides for issuance of the deferred stock to directors upon completion of their service on the Board of Directors. A copy of the Plan is filed as Exhibit 10.1 to this Form 10-Q.

Item 6. Exhibits

3.1	Restated Certificate of Incorporation of Northrop Grumman Corporation effective May 17, 2005 (incorporated by reference to Exhibit 99.2 to Form 8-K dated May 17, 2005 and filed May 19, 2005)
3.2	Bylaws of Northrop Grumman Corporation, as amended May 17, 2005 (incorporated by reference to Exhibit 99.3 to Form 8-K dated May 17, 2005 and filed May 19, 2005)
*10.1	Northrop Grumman 1993 Stock Plan for Non-Employee Directors (as amended and restated July 26, 2005)
10.2	Term sheet for Kenneth N. Heintz for position of Corporate Vice President, Controller and Chief Accounting Officer (incorporated by reference to Exhibit 99.1 to Form 8-K dated April 20, 2005 and filed April 21, 2005)
*10.3	Form of Restricted Performance Stock Rights Agreement (officer), as amended May 16, 2005, applicable to 2005 Restricted Performance Stock Rights granted under the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as amended September 17, 2003
*10.4	Form of Restricted Performance Stock Rights Agreement (non- officer), as amended May 16, 2005, applicable to 2005 Restricted Performance Stock Rights granted under the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as amended September 17, 2003
*10.5	Northrop Grumman 2002 Annual Incentive Plan (Amended and Restated as of May 16, 2005) – Incentive Compensation Plan (for Non-Section 162(m) Officers), Performance Achievement Plan, Incentive Management Achievement Plan
*10.6	Separation Agreement and General Release dated as of July 26, 2005, between Philip A. Dur and Northrop Grumman Corporation
*10.7	Non-Employee Director Compensation Term Sheet, effective June 1, 2005
*10.8	First Amendment, effective as of April 29, 2005, to the Northrop Grumman Savings Excess Plan (Amended and Restated as of October 1, 2004)

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NORTHROP GRUMMAN CORPORATION

*15	Letter from independent registered public accounting firm regarding unaudited interim financial information
*31.1	Rule 13a-14(a)/15d-14(a) Certification of Ronald D. Sugar (Section 302 of the Sarbanes-Oxley Act of 2002)
*31.2	Rule 13a-14(a)/15d-14(a) Certification of Wesley G. Bush (Section 302 of the Sarbanes-Oxley Act of 2002)
**32.1	Certification of Ronald D. Sugar pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of Wesley G. Bush pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed with this Report
** Furnished with this Report

NORTHROP GRUMMAN CORPORATION

SIGNATURES

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

		NORTHROP GRUMMAN CORPORATION (Registrant)
Date: July 27, 2005	By:	/s/ KENNETH N. HEINTZ
		Kenneth N. Heintz Corporate Vice President, Controller and Chief Accounting Officer

Exhibit 10.1

NORTHROP GRUMMAN CORPORATION
1993 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS
(AS AMENDED AND RESTATED JULY 26, 2005)

1. Purpose; Effect of Plan Restatement

(a) The purpose of the Northrop Grumman Corporation 1993 Stock Plan for Non-Employee Directors (the "Plan") is to promote the long-term growth and financial success of Northrop Grumman Corporation (the "Company") by attracting and retaining non-employee directors of outstanding ability and assisting the Company in promoting a greater identity of interest between the Company's non-employee directors and its stockholders.

(b) The Plan is amended and restated as set forth herein effective as of June 1, 2005 (the "Effective Date"). The terms of the Plan as in effect immediately prior to the Effective Date shall continue to apply to any benefits earned under the Plan, including any Stock Units that are subject to deferral elections made under the Plan, prior to such date. The term "Stock Units" as used in this restatement of the Plan and any provisions of the Plan applicable to such Stock Units refers only to Stock Units that are credited under the Plan on or after the Effective Date.

2. Term

The Plan shall become effective upon the approval by the stockholders of the Company. The Plan shall operate and shall remain in effect until terminated by action of the Company's Board of Directors (the "Board").

3. Plan Operation

The Plan is intended to meet the requirements of Rule 16b-3(c)(2)(ii) adopted under the Securities Exchange Act of 1934 (the "1934 Act") and accordingly is intended to be self-governing. To this end the Plan requires no discretionary action by any administrative body with regard to any transaction under the Plan. To the extent, if any, that any questions of interpretation arise, these shall be resolved by this Nominating Committee (or any successor committee) of the Board (the "Committee").

4. Eligibility

Only directors of the Company who are not employees of the Company or any subsidiary of the Company ("Eligible Directors") shall participate in the Plan.

5. Shares of Common Stock Subject to the Plan

The maximum number of shares of common stock of the Company ("Common Stock") that shall be reserved for issuance under the Plan shall be 175,000 shares, subject to adjustment upon changes in the capitalization of the Company as provided in Section 6 of the Plan. The shares of Common Stock to be issued pursuant to the Plan may be, at the election of the Company, either authorized and unissued shares or treasury shares, and no fractional shares shall be issued under the Plan. Shares of Common Stock that are paid in settlement of Stock Units (as defined herein) shall be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan.

6. Adjustments and Reorganizations

The Board, as it deems appropriate to meet the intent of the Plan, may make such adjustments to the number of shares available under the Plan pursuant to Section 5 and to any outstanding Stock Units credited under the Plan, provided such adjustments are consistent with the effect on other stockholders arising from

any corporate restructuring action. Such actions may include, but are not limited to, any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting shares. The Board may also make such similar appropriate adjustment in the calculation of Fair Market Value (as defined in Section 7) as it deems necessary to preserve Eligible Directors' rights under the Plan.

7. Fair Market Value

Fair Market Value for all purposes under the Plan shall mean the average (rounded up to the nearest cent) of the closing price on the last day of the month of a share of Common Stock for each of the preceding twelve calendar months, or shorter period as may be applicable, as reported on the composite tape for securities listed on the New York Stock Exchange.

8. Grants of Stock Units

(a) The annual cash retainer payable to each Eligible Director for services as a director, excluding any fees payable for service on Board committees or for extraordinary services (the "Annual Retainer"), shall be payable partly in the form of a credit of Stock Units under the Plan. As used herein, a "Stock Unit" is a non-voting unit of measurement which is credited to a bookkeeping account and deemed for purposes of the Plan to be equivalent in value to one outstanding share of Common Stock. The Stock Units shall be used solely as a device for the determination of any payment to eventually be made to the Eligible Director pursuant to Section 9.

(b) On or as soon as practicable after any date on or after the Effective Date on which a quarterly payment of the Annual Retainer is to be paid (each, a "Crediting Date"), each Eligible Director's account under the Plan will be automatically credited with a number of Stock Units equal to fifty percent (50%) of the amount of the Annual Retainer scheduled to be paid to such Eligible Director on such Crediting Date, divided by the Fair Market Value of a share of Common Stock on the Crediting Date. The remaining fifty percent (50%) of the amount of the Annual Retainer scheduled to be paid to such Eligible Director on such Crediting Date will be paid to the Eligible Director in cash; provided, however, that the Eligible Director may elect in advance to have all or any portion of such amount credited as Stock Units to his or her account under the Plan in lieu of such cash payment. Any such election to have a portion of the Annual Retainer credited in the form of Stock Units under the foregoing proviso must be made, on a form and in a manner prescribed by the Committee, prior to the beginning of the calendar year to which such Annual Retainer relates. The number of Stock Units to be credited pursuant to such election shall be determined based on the Fair Market Value of a share of Common Stock on the Crediting Date.

9. Payment of Stock Units

All Stock Units shall be paid in an equivalent number of shares of Common Stock in a single distribution promptly after the first day that the Eligible Director is no longer a member of the Board (the "Payment Date"). Such payment shall be subject to adjustment as provided in Section 6 and shall be in complete satisfaction of such Stock Units.

10. Dividend Equivalents

No later than sixty (60) days following each date that the Company pays an ordinary cash dividend on its outstanding Common Stock (if any ordinary cash dividends are paid), for which the related record date occurs on or after the Effective Date and prior to an Eligible Director's Payment Date, the Eligible Director's Stock Unit account shall be credited with additional Stock Units equal to (i) the number of outstanding and unpaid Stock Units credited to such account as of such record date, multiplied by (ii) the amount of the ordinary cash dividend paid by the Company on a share of Common Stock, divided by (iii) the Fair Market Value of a share of the Common Stock as of such record date.

11. Restrictions on Transfer

Stock Units shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by an Eligible Director other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. An Eligible Director may designate a beneficiary or beneficiaries to receive any distributions under the Plan upon the death of the Eligible Director.

12. Issuance of Certificates

(a) As promptly as practicable following an Eligible Director's Payment Date, but no later than 30 days subsequent to such date, the Company shall issue stock certificates registered in the name of the Eligible Director representing the number of shares of Common Stock equivalent to Stock Units which are payable under the Plan with respect to such Payment Date.

(b) Whenever under the terms of the Plan a fractional share would be required to be issued, the fractional share shall be rounded up to the next full share.

(c) All shares of Common Stock delivered under the Plan shall be subject to such stop-transfer orders and other restrictions as the Company may deem advisable or legally necessary under any laws, statutes, rules, regulations and other legal requirements, including those of any stock exchange upon which the Common Stock is then listed and any applicable Federal, state or foreign securities law.

(d) Anything to the contrary herein notwithstanding, the Company shall not be required to issue any shares of Common Stock under the Plan if, in the opinion of legal counsel, the issuance and delivery of such shares would constitute a violation by the Eligible Director or the Company of any applicable law or regulation of any governmental authority, including, without limitation, Federal and state securities laws, or the regulations of any stock exchange on which the Company's securities may then be listed.

13. Plan Amendment

The Board may suspend or terminate the Plan or any portion of the Plan. The Board may also amend the Plan if deemed to be in the best interests of the Company and its stockholders; provided, however, that (a) no such amendment may impair any Eligible Director's right regarding any outstanding grants or Stock Units or other right to receive shares or cash payments under the Plan without his or her consent, (b) the Plan may not be amended more than once every six months, unless such amendment is permitted by Rule 16b-3(c)(2)(ii)(B) under the 1934 Act, and (c) no such amendment may cause the Plan not to comply with Rule 16b-3, or any successor rule, under the 1934 Act.

14. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Eligible Director or other person. To the extent any person holds any rights by virtue of an award granted under the Plan, such rights (unless otherwise determined by the Committee) shall be no greater than the rights of an unsecured general creditor of the Company.

15. Future Rights

Neither the Plan, nor the granting of Common Stock nor any other action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the Company will retain an Eligible Director for any period of time, or at any particular rate of compensation. Nothing in this Plan shall in any way limit or affect the right of the Board or the stockholders of the Company to remove any Eligible Director or otherwise terminate his or her service as a director of the Company.

16. Governing Law

The Plan and all rights and obligations under the Plan shall be governed by, and construed in accordance with, the laws of the State of California and applicable Federal law.

17. Successors and Assigns

The Plan shall be binding on all successors and assigns of an Eligible Director, including, without limitation, the estate of such Eligible Director and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Eligible Director's creditors.

18. Rights as a Stockholder

The Eligible Director in whose name the certificates are registered shall have all of the rights of a stockholder with respect to such shares, including the right to vote the Common Stock and receive dividends and other distributions made on the Common Stock. Shares of Common Stock issued under the Plan shall be fully paid and non-assessable.

19. Construction

The Plan shall be construed and interpreted to comply with Section 409A of the Internal Revenue Code ("Section 409A"). Notwithstanding Section 13 above, the Company reserves the right to amend the Plan and any outstanding grants under the Plan to the extent it reasonably determines is necessary in order to preserve the intended tax consequences of the Stock Units in light of Section 409A and any regulations or other guidance promulgated thereunder.

Exhibit 10.3

FORM B - OFFICER

NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO 2005 RESTRICTED PERFORMANCE STOCK RIGHTS GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions ("Terms") apply to certain "Restricted Performance Stock Rights" ("RPSRs") granted by Northrop Grumman Corporation (the "Company") in 2005. If you were granted an RPSR award by the Company in 2005, the date of grant of your RPSR award and the target number of RPSRs applicable to your award are set forth in the letter from the Company announcing your RPSR award grant (your "Grant Letter") and are reflected in the electronic stock plan award recordkeeping system ("Stock Plan System") maintained by the Company or its designee. These Terms apply to your RPSR award if referenced in your Grant Letter and/or on the Stock Plan System with respect to your award. If you were granted an RPSR award, you are referred to as the "Grantee" with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RPSR represents a right to receive one share of the Company's Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The performance period applicable to your award is January 1, 2005 to December 31, 2007 (the "Performance Period"). The target number of RPSRs subject to your award are subject to adjustment as provided herein. The RPSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Payment of RPSRs.

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

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

1.2 ***Minimum Vesting***. The Earnout Percentage determined under Section 1.1 shall not be less than thirty (30) percent; provided, however, that such minimum Earnout Percentage shall not apply if, as of the December 31 immediately preceding the start of the Performance Period, the Grantee is either the Chief Executive Officer of the Company, is otherwise a "Covered Employee" (as defined for purposes of Section 162(m) of the Code) of the Company, or is one of the next three highest compensated employees (as determined by proxy convention) with respect to the Company.

1.3 ***Payment of RPSRs***. The number of RPSRs payable at the conclusion of the Performance Period ("Earned RPSRs") shall be determined by multiplying the Earnout Percentage by the target number of RPSRs subject to the award. The Earned RPSRs may be paid out in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for each Earned RPSR to be paid in cash (subject to tax withholding as provided in Section 6 below) will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date the Committee determines the extent to which the applicable RPSR performance criteria have been achieved. RPSRs will normally be paid by March 30 following the end of the Performance Period.

1.4 ***Dividend Equivalents***. At the conclusion of the Performance Period, the Grantee shall be entitled to payment for Dividend Equivalents (if any) with respect to the Earned RPSRs (if any). For purposes of these Terms, "Dividend Equivalents" means the aggregate amount of dividends paid by the Company on a number of shares of Common Stock equivalent to the number of Earned RPSRs during the period from the beginning of the Performance Period until the date the Earned RPSRs are paid (without interest or other adjustments to reflect the time value of money, but subject to adjustment

pursuant to Section 5.1). For these purposes, any Earned RPSRs in excess of the target number of RPSRs subject to the award shall be considered to have been granted at the beginning of the Performance Period.

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

2. Early Termination of Award; Termination of Employment.

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

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

In the case of Retirement, the number of Earned RPSRs subject to prorating shall be calculated based on the entire Performance Period in accordance with Section 1 above as if the Grantee had not terminated employment. In the case of death or Disability (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs (but in no event shall such date be more than one year before the Grantee's termination of employment), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will normally be made by the end of the third month following the month of the Grantee's death or Disability. The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable. Notwithstanding the preceding sentences of this paragraph, for the purpose of computing the number of Earned RPSRs, and for purposes of the time and manner of payment of the Grantee's Earned RPSRs, the termination of employment by the Grantee on account of Retirement shall be treated as a termination on account of death or Disability, if: (a) contemporaneous with such Retirement the Grantee accepts employment with a not-for-profit entity; federally funded research and development center; local, state or federal government; public or private college or university, or other, similar entity; and (b) the Committee determines in its discretion that such employment may likely give rise to a conflict of interest or appearance thereof.

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

2.3 ***Other Terminations of Employment***. Subject to Section 5.2, all RPSRs subject to the award and related Dividend Equivalents terminate immediately upon a termination of the Grantee's employment: (a) for any reason other than due to the Grantee's Retirement, death or Disability; or (b) for Retirement, death or Disability, if the six-month employment requirement under Section 2.2 above is not satisfied.

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

return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

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

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

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

3. Non-Transferability and Other Restrictions.

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

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

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

5. Adjustments; Change in Control.

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

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

(a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined

in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.

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

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

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.2, then the Grantee will be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the last day of the month coinciding with or immediately preceding the date of the termination of the Grantee's employment, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and through the date of the termination of the Grantee's employment (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the termination shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment will be made no later than 60 days after the later of the Change in Control of the Company or the termination of the Grantee's employment.

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

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.3, then the Grantee will, be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and before the occurrence of the Change in Control (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the Change in Control shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment will be made no later than 60 days after the Change in Control.

6. Tax Matters.

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

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

7. Committee Authority.

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

8. Plan; Amendment.

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

9. Definitions.

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

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

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

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

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

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

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

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

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

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

individuals, selected by the Committee, who are qualified to give such professional medical advice.

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

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

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

(i) A material and substantial reduction in the nature or status of the Grantee's authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee's authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company's industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. For the purpose of the preceding test, the Grantee and the Company shall mutually agree on a nationally-recognized consulting firm; provided that, if agreement cannot timely be reached, the Company and the Grantee shall each timely choose a nationally-recognized firm and representatives of these two firms shall promptly choose a third firm, which third firm will make the determination referred to in the preceding sentence. The written opinion of the firm thus selected shall be conclusive as to this issue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit 10.4

FORM A

NORTHROP GRUMMAN CORPORATION

TERMS AND CONDITIONS APPLICABLE TO
2005 RESTRICTED PERFORMANCE STOCK RIGHTS
GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions ("Terms") apply to certain "Restricted Performance Stock Rights" ("RPSRs") granted by Northrop Grumman Corporation (the "Company") in 2005. If you were granted an RPSR award by the Company in 2005, the date of grant of your RPSR award and the target number of RPSRs applicable to your award are set forth in the letter from the Company announcing your RPSR award grant (your "Grant Letter") and are reflected in the electronic stock plan award recordkeeping system ("Stock Plan System") maintained by the Company or its designee. These Terms apply to your RPSR award if referenced in your Grant Letter and/or on the Stock Plan System with respect to your award. If you were granted an RPSR award, you are referred to as the "Grantee" with respect to your award. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

Each RPSR represents a right to receive one share of the Company's Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The performance period applicable to your award is January 1, 2005 to December 31, 2007 (the "Performance Period"). The target number of RPSRs subject to your award are subject to adjustment as provided herein. The RPSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Payment of RPSRs.

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

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

1.2 ***Minimum Vesting***. The Earnout Percentage determined under Section 1.1 shall not be less than thirty (30) percent; provided, however, that such minimum Earnout Percentage shall not apply if, as of the December 31 immediately preceding the start of the Performance Period, the Grantee is either the Chief Executive Officer of the Company, is otherwise a "Covered Employee" (as defined for purposes of Section 162(m) of the Code) of the Company, or is one of the next three highest compensated employees (as determined by proxy convention) with respect to the Company.

1.3 ***Payment of RPSRs***. The number of RPSRs payable at the conclusion of the Performance Period ("Earned RPSRs") shall be determined by multiplying the Earnout Percentage by the target number of RPSRs subject to the award. The Earned RPSRs may be paid out in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for each Earned RPSR to be paid in cash (subject to tax withholding as provided in Section 6 below) will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date the Committee determines the extent to which the applicable RPSR performance criteria have been achieved. RPSRs will normally be paid by March 30 following the end of the Performance Period.

1.4 ***Dividend Equivalents***. At the conclusion of the Performance Period, the Grantee shall be entitled to payment for Dividend Equivalents (if any) with respect to the Earned RPSRs (if any). For purposes of these Terms, "Dividend Equivalents" means the aggregate amount of dividends paid by the Company on a number of shares of Common Stock equivalent to the number of Earned RPSRs during the period from the beginning of the Performance Period until the date the Earned RPSRs are paid (without interest or other adjustments to reflect the time value of money, but subject to adjustment

pursuant to Section 5.1). For these purposes, any Earned RPSRs in excess of the target number of RPSRs subject to the award shall be considered to have been granted at the beginning of the Performance Period.

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

2. Early Termination of Award; Termination of Employment.

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

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

In the case of Retirement, the number of Earned RPSRs subject to prorating shall be calculated based on the entire Performance Period in accordance with Section 1 above as if the Grantee had not terminated employment. In the case of death or Disability (a) the Performance Period used to calculate the Grantee's Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs (but in no event shall such date be more than one year before the Grantee's termination of employment), (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs (and Dividend Equivalents thereon) will normally be made by the end of the third month following the month of the Grantee's death or Disability. The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable. Notwithstanding the preceding sentences of this paragraph, for the purpose of computing the number of Earned RPSRs, and for purposes of the time and manner of payment of the Grantee's Earned RPSRs, the termination of employment by the Grantee on account of Retirement shall be treated as a termination on account of death or Disability, if: (a) contemporaneous with such Retirement the Grantee accepts employment with a not-for-profit entity; federally funded research and development center; local, state or federal government; public or private college or university, or other, similar entity; and (b) the Committee determines in its discretion that such employment may likely give rise to a conflict of interest or appearance thereof.

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

2.3 ***Other Terminations of Employment***. Subject to Section 5.2, all RPSRs subject to the award and related Dividend Equivalents terminate immediately upon a termination of the Grantee's employment: (a) for any reason other than due to the Grantee's Retirement, death or Disability; or (b) for Retirement, death or Disability, if the six-month employment requirement under Section 2.2 above is not satisfied.

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

return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

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

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

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

3. Non-Transferability and Other Restrictions.

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

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

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

5. Adjustments; Change in Control.

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

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

(a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined

in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.

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

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

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.2, then the Grantee will be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the last day of the month coinciding with or immediately preceding the date of the termination of the Grantee's employment, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and through the date of the termination of the Grantee's employment (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the termination shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment will be made no later than 60 days after the later of the Change in Control of the Company or the termination of the Grantee's employment.

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

In the event the Grantee is entitled to a prorated payment in accordance with the foregoing provisions of this Section 5.3, then the Grantee will, be eligible for a prorated portion of the RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company, multiplied by (b) the target number of RPSRs subject to the award, multiplied by (c) a fraction the numerator of which is the total number of full months that the Grantee was an employee of the Company or a subsidiary on and after the beginning of the Performance Period and before the occurrence of the Change in Control (but not in excess of 36 months) and the denominator of which is 36. Accumulated Dividend Equivalents through the date of the Change in Control shall be paid to the Grantee with respect to the Grantee's RPSRs which are paid. Payment will be made no later than 60 days after the Change in Control.

6. <u>Tax Matters</u>.

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

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

7. <u>Committee Authority</u>.

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

8. <u>Plan; Amendment</u>.

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

9. <u>Definitions</u>.

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

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

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

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

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

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

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

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

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

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

individuals, selected by the Committee, who are qualified to give such professional medical advice.

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

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

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

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

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

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

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

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

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

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

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

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

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

than the date that is six (6) months prior to the Change in Control.

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

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

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

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

NORTHROP GRUMMAN 2002 ANNUAL INCENTIVE PLAN
Amended and Restated as of May 16, 2005

INCENTIVE COMPENSATION PLAN (for NON-SECTION 162(m) OFFICERS)
PERFORMANCE ACHIEVEMENT PLAN
INCENTIVE MANAGEMENT ACHIEVEMENT PLAN

SECTION I

PURPOSE

Northrop Grumman has an annual incentive program to promote the success of the Company and render its operations profitable to the maximum extent by providing incentives to key employees. Participating employees have varying degrees of impact on the overall success and performance of the Company. To facilitate the appropriate incentive level for each Participant, Northrop Grumman utilizes three incentive plans that use common financial and business performance criteria:

- The Incentive Compensation Plan (ICP)
- The Performance Achievement Plan (PAP)
- The Incentive Management Achievement Plan (IMAP).

SECTION II

DEFINITIONS

1. COMPANY - Northrop Grumman Corporation and such of its subsidiaries as are consolidated in its consolidated financial statements.

2. CODE – The Internal Revenue Code of 1986, as amended from time to time.

3. COMMITTEE - The Compensation and Management Development Committee of the Board of Directors of the Company.

4. INCENTIVE COMPENSATION – Awards payable under these plans.

5. PARTICIPANT – An employee of the Company granted or eligible to receive Incentive Compensation award under one of these Plans.

6. PERFORMANCE CRITERIA – The performance criteria is a weighted combination of various financial and non-financial factors approved by the Committee for the Performance Year.

7. PERFORMANCE YEAR – The year with respect to which an award of Incentive Compensation is calculated and paid.

8. PLAN – Any of the following plans, individually or in combination: the Incentive Compensation Plan (ICP); the Performance Achievement Plan (PAP); and/or the Incentive Management Achievement Plan (IMAP).

9. SECTION 162(m) OFFICER – An employee who is a "covered employee" as defined in Section 162(m) of the Code with respect to an award of Incentive Compensation under the 2002 Incentive Compensation Plan for any Performance Year.

10. YEAR - The fiscal year of Northrop Grumman Corporation.

SECTION III

PARTICIPATION

Employees may be eligible for Incentive Compensation under one of the Northrop Grumman incentive Plans. Several factors are taken into consideration when determining in which Plan an employee may be eligible to participate:

1. Incentive Compensation Plan (ICP):

a. Employees eligible to receive Incentive Compensation under this Plan are elected corporate officers of the rank of Vice President and above and the Presidents of those consolidated subsidiaries that the Committee determines to be significant in the overall corporate operations that are not Section 162(m) Officers for the Performance Year. If an executive receives or is eligible to receive an Incentive Compensation award under the 2002 Incentive Compensation Plan for 162(m) Officers, then the executive will not be eligible and shall not receive an Incentive Compensation award under this Plan.

b. Directors, as such, shall not participate in this Plan, but the fact that an elected corporate officer or subsidiary President is also a Director of the Company shall not prevent participation.

2. Performance Achievement Plan (PAP):

a. Employees eligible to receive Incentive Compensation awards under this Plan are Appointed Vice Presidents, senior management as well as high-level individual contributors who are in a position to make measurable and significant contributions to the success of the Company.

b. At the beginning of or prior to a Performance Year, the Company's CEO approves the number of Participants to be eligible in this Plan. Participants are then selected by their management based on an assessment of their position relative to other candidates, their performance, and their potential impact on achievement of business unit and the Company goals.

c. Participation in this Plan during any Performance Year does not imply nor guarantee participation in the Plan in future years.

3. Incentive Management Achievement Plan (IMAP):

a. Employees eligible to receive Incentive Compensation awards under this Plan include middle management and individual key contributors (employees normally in a position that customarily perform quasi-management or team leadership duties). In addition, employees may be eligible to participate in this Plan if they have specific individual goals that directly contribute to the attainment of their respective business unit and operating goals or if the person is a "high performing" employee.

b. At the beginning of or prior to a Performance Year, the Company's CEO approves the number of Participants to be eligible in this Plan. Participants are then selected by their management based on an assessment of their position relative to other candidates, their performance and their potential impact on achievement of business unit and the Company goals.

c. Participation in this Plan during any Performance Year does not imply nor guarantee participation in the Plan in future years.

4. Non-Duplication of Awards

a. A Participant may not receive an Incentive Compensation award under more than one of the above Plans for the Performance Year. The only exception to this is in the event that an individual is a Participant in a particular Plan for a portion of the Performance Year and then is selected to participate in one of the other Plans for the remainder of that Performance Year. In this event, an individual may receive pro-rated awards based on the time the individual participated in each Plan.

b. A Participant will not be eligible to receive any Incentive Compensation award from any of these Plans if the employee is a Participant in the Company's 2002 Incentive Compensation Plan for 162(m) Officers.

5. Death, Disability, or Retirement

A Participant may be eligible to receive a pro-rated Incentive Compensation award in the event of the employee's death, disability, or retirement. In the case of a deceased Participant, such Incentive Compensation award will be paid to the Participant's estate.

For the purpose of this section, retirement requires a Participant to be age 55 or older with at least 10 years of service. Notwithstanding any other provisions of this Plan, if contemporaneous with the Participant's retirement, (1) the Participant accepts employment with a not-for-profit entity; federally funded research and development center; local, state or federal government; public or private college or university, or other, similar entity, and (2) the Committee determines in its discretion that such employment may likely give rise to a conflict of interest or appearance thereof, then the Committee may determine that a pro-rated Incentive Compensation award shall be paid within 10 business days of retirement. For the purpose of computing the prorated award, the Unit Performance Factor (see Section V) shall be the greater of (1) 1.0 or (2) the average of the Unit Performance Factors for the three calendar years completed before retirement (or for two years or one year, if the Participant does not have Unit Performance Factors for three years). For the purpose of computing the prorated award, the Individual Performance Factor (see Section VII) shall be the average of the Individual Performance Factors for the three calendar years completed before retirement (or for two years or one year, if the Participant does not have Individual Performance Factors for three years).

6. Employment Status

Except as provided in 5 (see above), in order to be eligible to receive a payment from these plans, a Participant must be an active employee of the Company as of December 31 of the plan year unless an exception is approved in writing by the Company's Chief Human Resources Officer.

SECTION IV

GOAL SETTING AND PERFORMANCE CRITERIA

Goal setting and performance planning are essential elements of Plan administration. This requires establishing Performance Criteria, such as annual goals, goal weights, and performance measures. Except as provided in the Plan, the Committee approves annual business and financial goals for the Company no later than the end of the first quarter of the annual performance period.

1. Corporation Goals

For the Performance Year - 2002 and for all future Performance Years until otherwise determined by the Committee, financial and non-financial objectives may, in the sole discretion of the Committee, will be established.

Refer the Appendix A for the specific Performance Year Goals approved by the Committee.

a) Financial Measures

i) The CEO's recommended goals are reviewed and amended as appropriate, and established by the Committee at its sole discretion. Measures may include, but are not limited to: cash management, cash flow, return on investment, debt reduction, revenue growth, net earnings, and return on equity.

ii) The Committee approves a performance threshold, a target level and a maximum performance level for each of the Financial Measures for the Performance Year.

b) Supplemental Goals

Supplemental Goals may be either qualitative or quantitative such as, but not limited to: customer satisfaction, contract acquisition, delivery schedule, cycle-time improvement, productivity, quality, workforce diversity, and environmental management. The CEO recommends the Supplemental Goals based on sector goals contained in Annual Operating Plans and Corporate Office Goals established prior to the beginning of each year. Supplemental Goals have stated milestones and weights. The CEO's recommended Supplemental Goals are reviewed and amended as appropriate, and established by the Committee at its sole discretion.

2. Individual Goals

Each year Participants develop individual goals that support achievement of the Company's business plan and the specific goals established by the Committee in the three aforementioned Corporation Goals. Individual goals are prepared, approved and documented. The employee's manager reviews these goals with each Participant to ensure they are aggressive, coordinated and focused on attainment of Company business objectives.

SECTION V

PERFORMANCE DETERMINATION

1. At the end of the Performance Year the CEO evaluates the performance of each of the operating units and that of the overall Company against the financial and business goals established at the beginning of the Performance Year and submits his assessment to the Committee.

2. The CEO's final evaluation of performance (the "Unit Performance Factor" or "UPF") is stated numerically and is a performance multiplier for individual incentive targets. The UPF will vary from 0.0 to a maximum as approved by the Committee.

3. The Committee, in its sole discretion, after taking into account its appraisal of the overall performance of the Company in the attainment of such predetermined financial and non-financial objectives, may either increase or decrease the Company Unit Performance Factor for these Plans.

SECTION VI

INCENTIVE COMPENSATION APPROPRIATIONS

1. The amount appropriated for all three Plans for a Performance Year is based on the CEO's determination of the Unit Performance Factor and applied to the individual incentive targets of Participants. The performance-adjusted targets are aggregated into the "Appropriated Incentive Compensation" for the Performance Year.

2. In no event shall Incentive Compensation payable to Participants for a Performance Year exceed the Appropriated Incentive Compensation under the Plans for such Performance Year unless the Committee, in its sole discretion, deems that performance was greater than CEO's evaluation in the Unit Performance Factor in accordance with paragraph 3 of SECTION V.

3. Any Appropriated Incentive Compensation for a Performance Year, which is not actually distributed to the Participants as awards for such year, shall be forfeited.

SECTION VII

INCENTIVE COMPENSATION AWARDS

1. Individual Award Factors

a) Target Award Percentage – is established annually and is a percentage of annual aggregate salary that reflects the varying impact of participant's positions on business results. Generally Vice Presidents will have higher Target Award Percentages than senior middle managers and so forth.

b) Individual Performance – Prior to the submission of recommended Incentive Compensation awards, each Participant will be evaluated by his management in relation to the Participant's achievement of predetermined individual goals and his relative contribution during the Performance Year compared to other participants to the success or profit of the Company. This assessment of performance (the "Individual Performance Factor" or "IPF") is stated numerically

and is a performance multiplier for individual incentive targets. The IPF may range from 0 to 1.5.

c) Both the IPF and the UPF are multipliers for the individual participant's Target Award Percentage to determine the Incentive Compensation award.

2. ICP Awards:

a) The performance criteria established in accordance with SECTION IV on which all Incentive Compensation awards under the Plans are based shall first apply in the Performance Year 2002, but such performance criteria and any Incentive Compensation awards based thereon shall be conditional upon the Committee approving the Plan, the Performance Criteria, and performance goals stated herein.

b) The Committee shall review the CEO's recommendations and make the final determination of each individual ICP Participant's Incentive Compensation award for the Performance Year.

3. PAP and IMAP Awards:

a) Prior to the payment of any Incentive Compensation awards for a Performance Year, the CEO, or his delegate, may in his sole discretion, adjust or reduce to zero recommended amounts of Incentive Compensation awards to all or any of the Participants.

b) The CEO or his delegate shall determine the amount of any adjustment in a Participant's Incentive Compensation award on the basis of such factors as he deems relevant, and shall not be required to establish any allocation or weighting component with respect to the factors he considers.

SECTION VIII

ADMINISTRATION OF THE PLANS

1. Incentive Compensation Plan (ICP): The Committee shall be responsible for the administration of the Plan. The Committee shall:

a. Interpret the Plan, make any rules and regulations relating to the Plan, determine which consolidated subsidiaries are significant for the purpose of the first paragraph of SECTION III, and determine factual questions arising in connection with the Plan, after such investigation or hearing as the Committee may deem appropriate.

b. As soon as feasible after the close of each Performance Year and prior to the payment of any Incentive Compensation for such Performance Year, review the performance of each Participant and determine the amount of each Participant's individual Incentive Compensation award, if any, with respect to that Performance Year.

c. Have sole discretion in determining Incentive Compensation awards under the Plan, except that in making awards the Committee may, in its discretion, request and consider the recommendations of the CEO of the Company and others whom it may designate.

d. Any decisions made by the Committee under the provisions of this SECTION VIII shall be conclusive and binding on all parties concerned.

2. PAP and IMAP: The CEO shall be responsible for the administration of these plans. The CEO shall:

a. Interpret the Plans, make any rules and regulations relating to the Plans, and determine factual questions arising in connection with the Plans.

b. As soon as feasible after the close of each Performance Year and prior to the payment of any Incentive Compensation for such Performance Year, review the recommended awards of selected Participants, as established by the CEO, to determine if the award is appropriate with respect to that Performance Year, making any adjustments as he deems necessary and approving each award.

c. Review and approve the total Incentive Compensation award expenditure of each sector and the Company overall.

d. Any decisions made by the CEO under the provisions of this SECTION VIII shall be conclusive and binding on all parties concerned.

SECTION IX

METHOD OF PAYMENT OF INCENTIVE COMPENSATION TO INDIVIDUALS

1. ICP Payments:

a. The amount of Incentive Compensation award determined for each Participant with respect to a given Performance Year shall be paid in cash or in common stock of the Company ("Northrop Grumman common stock") or partly in cash and partly in Northrop Grumman common stock, as the Committee may determine.

b. Payments in cash may be made in a lump sum with respect to an Incentive Compensation award for a Performance Year, or in installments, as the Committee may

determine. In either event, the Committee may impose such conditions, including forfeitures and restrictions as the Committee believes will best serve the interests of the Company and the purposes of the Plan.

c. Payments in Northrop Grumman common stock may be made in full with respect to an Incentive Compensation award for a Performance Year, or in installments, as the Committee may determine. In either event, the Committee may impose such conditions, including forfeitures and restrictions, as the Committee believes will best serve the interests of the Company and the purposes of the Plan.

d. In making awards of Northrop Grumman common stock, the Committee shall first determine all Incentive Compensation awards in terms of dollars. The total dollar amount of all Incentive Compensation awards for a particular year shall not exceed the Appropriated Incentive Compensation for that Performance Year under this Plan. After fixing the total amount of each Participant's Incentive Compensation award in terms of dollars, then if some or all of the award is to be paid in Northrop Grumman common stock, the dollar amount of the Incentive Compensation award so to be paid shall be converted into shares of Northrop Grumman common stock by using the fair market value of such stock on the date of the award. "Fair Market Value" shall be the closing price of such stock on the New York Stock Exchange on the date of the award, or, if no sales of such stock occurred on that date, then on the last preceding date on which such sales occurred. No fractional share shall be issued.

e. If an Incentive Compensation award is paid in Northrop Grumman common stock, the number of shares shall be appropriately adjusted for any stock splits, stock dividends, re-capitalization or other relevant changes in capitalization effective after the date of award and prior to the date as of which the Participant becomes the record owner of the shares received in payment of the award. All such adjustments thereafter shall accrue to the Participant as the record owner of the shares.

f. Northrop Grumman common stock issued in payment of Incentive Compensation awards may, at the option of the Board of Directors, be either originally issued shares or treasury shares.

g. Distribution of awards shall be governed by the terms and conditions applicable to such awards, as determined by the Committee or its delegate. An award, the payment of which is to be deferred pursuant to the terms of an employment agreement, shall be paid as provided by the terms of such agreement. Awards or portions thereof deferred pursuant to any other deferred compensation plan or deferral arrangement shall be paid as provided in such plan or arrangement. Any other awards the payment of which has been deferred, in whole or in part, shall be paid as determined by the Committee.

h. The Company shall have the right to deduct from all payments under this Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.

i. No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interests whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.

2. PAP and IMAP Payments:

a. The amount of Incentive Compensation award determined for each Participant with respect to a given Performance Year shall be paid in cash.

b. The Company shall have the right to deduct from all payments under this Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.

c. No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.

SECTION X

AMENDMENT OR TERMINATION OF PLANS

The Committee shall have the right to terminate or amend these Plans at any time and to discontinue further appropriations to the Plans.

SECTION XI

EFFECTIVE DATE

These Plans shall be effective for Performance Years commencing with and following 2002 and shall stay in effect until amended, modified or terminated by the Committee. The provisions of these Plans, together with those of the 2002 Incentive Compensation Plan for 162(m) Officers, shall supersede and replace those of prior plan documents.

SECTION XII

MISCELLANEOUS

1. Participation in any Plan shall not constitute an agreement (1) of the Participant to remain in the employ of and to render his/her services to the Company, or (2) of the

Company to continue to employ such Participant, and the Company may terminate the employment of a Participant at any time with or without cause.

2. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plans, and the Plans shall be construed and enforced as if the illegal or invalid provision had not been included.

3. All costs of implementing and administering the Plans shall be borne by the Company.

4. All obligations of the Company under the Plans shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

5. The Plans and any agreements hereunder, shall be governed by and construed in accordance with the laws of the state of Delaware.

Exhibit 10.6

SEPARATION AGREEMENT
AND GENERAL RELEASE

1.0 **PARTIES:** The parties to this Separation Agreement and General Release ("Agreement") are Dr. Philip A. Dur ("Dr. Dur") and NORTHROP GRUMMAN CORPORATION ("Northrop Grumman" or "the Company").

2.0 **RECITALS:** This Agreement is made regarding the following facts:

2.1 Dr. Dur is currently an elected officer of the Company. From October 1, 2001 through July 1, 2005 he served as President of the Company's Ships Systems sector, which is engaged in the design, manufacture, modification, maintenance and overhaul of ships and components thereof to the U.S. Government.

2.2 Dr. Dur and the Company have concluded that it is in their mutual best interests for Dr. Dur to retire from the Company no later than December 31, 2005.

2.3 The Company has concluded that it is in its best interests to offer Dr. Dur the severance benefits set forth in this Agreement in recognition of his contributions to the Company.

2.4 Dr. Dur wishes to accept the Company's offer, and to enter into this Agreement.

3.0 **CONSIDERATION:** In exchange for Dr. Dur's promise to abide by all of the terms of this Agreement, the Company agrees to provide the following consideration:

3.1 Lump-sum Cash Severance. The Company agrees to pay Dr. Dur the sum of $2,900,000, less applicable withholding. This amount will be paid to Dr. Dur in a single lump sum payment within thirty (30) calendar days of the later of the following two events: (a) the expiration of the revocation period set forth in Section 14 of this Agreement, or (b) the date Dr. Dur's employment with the Company ends ("Separation Date").

3.2 Continued Vesting in RPSRs: Following his Separation Date, Dr. Dur shall continue to vest in all Restricted Performance Stock Rights ("RPSRs") granted to him, as if he were actively employed. Such RPSR grants shall be valued and paid to Dr. Dur at the conclusion of the Performance Periods specified therein, at the same time that RPSR grants to other employees which have the same Performance Periods are valued and paid.

3.3 Continued Vesting in Stock Options: Following his Separation Date, Dr. Dur shall continue to vest in all unvested stock options previously granted to him as if he were actively employed. Notwithstanding the provision in the stock option grant certificates which provides that options must be exercised within 90 days following termination of employment (except for certain retirement provisions not applicable here), Dr. Dur shall have five years from his Separation Date to exercise all of his stock options, but in no event shall Dr. Dur be able to exercise an option after the Expiration Date set forth therein.

3.4 Bonus for 2005. Dr. Dur will be paid a bonus for the 2005 performance year pursuant to the terms of the Performance Achievement Plan, in addition to the lump-sum cash severance payment described in Section 3.1. This bonus will be paid when the annual bonuses are paid to active employees in February or March of 2006. The amount of the bonus will be based on the Corporate Unit Performance Factor (“UPF”) with an Individual Performance Factor (“IPF”) determined by the Company’s Chief Executive Officer.

3.5 Medical and Dental Coverage Continuation. Dr. Dur may elect to continue his medical and dental coverage in effect as of the Separation Date for three years, provided he pays his portion of the cost of such coverage with after-tax dollars. The Company will continue to pay its portion of the cost of Dr. Dur’s medical and dental benefits for the three year period. If rates for active employees increase during this continuation period, Dr. Dur’s contribution will increase proportionately. Also, if medical and dental benefits are modified or terminated for elected officers during this continuation period, Dr. Dur’s benefits shall be subject to this modification or termination. Following the end of this three year period, Dr. Dur shall have the option of continuing his medical and dental coverage until July 1, 2009, but only if he provides reasonable advance notice to the Company of his intent to so, and only if he timely pays the full COBRA rate for such coverage.

3.6 Other Fringe Benefits. Pursuant to the terms of the Executive Perquisite Program for elected officers, Dr. Dur is currently entitled to certain perquisites, including an automobile allowance and reimbursement for certain tax preparation and financial planning fees. All such perquisites shall cease as of Dr. Dur’s Separation Date. However, the Company shall make cash payments to Dr. Dur of (i) $45,000, representing the value of three years of the automobile allowance, and (ii) $27,000, representing the value of three years of the tax preparation/financial planning perquisites. These cash payments shall be made at the same time as the payment set forth in Section 3.1 of this Agreement.

3.7 Outplacement. Dr. Dur will be eligible to be reimbursed for the cost of outplacement services during the one year period following his Separation Date; provided, however that the total cost reimbursed shall be no greater than $50,000.

3.8 Not Pension Eligible Compensation. None of the consideration or payments made pursuant to this Agreement shall be eligible as compensation under any Company retirement, pension or benefit plan.

4.0 SEPARATION FROM EMPLOYMENT: Dr. Dur agrees to retire from the Company effective December 31, 2005. In the event Dr. Dur's services are no longer needed prior to December 31, 2005, the Company may elect to request that Dr. Dur retire on a date earlier than December 31, 2005. In that event, Dr. Dur shall retire on the date requested by the Company, and the Company shall pay Dr. Dur, in a lump sum, the base salary he would have earned had he worked through December 31 (less applicable withholding), with this payment to be made at the same time as the payment set forth in Section 3.1. The date Dr. Dur retires in accordance with this Section 4.0 shall be his Separation Date. Dr. Dur will remain entitled to the bonus described in Section 3.4, regardless of whether the Company elects to request his retirement before December 31, 2005,

5.0 COMPLETE RELEASE: In exchange for the consideration described in Section 3, Dr. Dur RELEASES and PROMISES NOT TO SUE the Company. For purposes of this Release, the term "Company" includes not only Northrop Grumman Corporation, but also any parents, subsidiaries, affiliates, predecessors, successors, assigns, related companies or entities, its or their employee benefit plans, trustees, fiduciaries and administrators, and any and all of its and their respective past or present officers, directors, partners, insurers, agents, representatives, attorneys, accountants, actuaries and employees. For purposes of this Release, the term "Dr. Dur" includes not only Dr. Dur himself, but also his heirs, spouses or former spouses, executors, administrators, agents, attorneys, representatives or assigns. This Release extinguishes all of Dr. Dur' claims, demands or causes of action, known or unknown, against the Company, based on anything occurring on or before the date Dr. Dur signs this Agreement.

5.1 This Release includes, but is not limited to, claims relating to Dr. Dur's employment and the ending of that employment, any rights of continued employment, reinstatement or reemployment by the Company, claims relating to or arising under Company dispute resolution procedures, claims for any costs or attorneys' fees incurred by Dr. Dur, and any claims for severance benefits under any contract, plan or policy.

5.2 This Release includes, but is not limited to, claims arising under the Age Discrimination in Employment Act, the Employee Retirement Income Security Act, the False Claims Act, the Family and Medical Leave Act, Executive Order No. 11246, the Civil Rights Act of 1991, and 42 U.S.C.

§ 1981. It also includes, but is not limited to, claims under Title VII of the Civil Rights Act of 1964, which prohibits discrimination in employment based on race, color, religion, sex or national origin, and retaliation; the Americans with Disabilities Act, which prohibits discrimination in employment based on disability, and retaliation; and any other federal, state or local laws or regulations prohibiting employment discrimination or retaliation, whether such claim be based upon an action filed by Dr. Dur or by any governmental agency.

5.3 This Release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under or in relation to the Company's personnel policies or employee handbooks, or any oral or written representations or statements made by officers, directors, lawyers, employees or agents of the Company, past and present, or under any state or federal law regulating wages, hours, compensation or employment, or any claim for retaliation, wrongful discharge, breach of contract (including any employment agreement), breach of the implied covenant of good faith and fair dealing, intentional or negligent infliction of emotional distress, intentional or negligent misrepresentation, or defamation.

5.4 Dr. Dur agrees that his Release includes claims which he did not know of or suspect to exist at the time he signed this Agreement, and that the Release extinguishes all known and unknown claims.

5.5 However, this Release does not include any rights Dr. Dur may have: (1) to test the knowing and voluntary nature of the Agreement under the Older Workers Benefit Protection Act or (2) to workers' compensation benefits; or (3) to earned, banked or accrued but unused vacation pay; (4) to vested benefits under any pension or savings plan; (5) to continued benefits in accordance with COBRA; or (6) to unemployment insurance.

6.0 ARBITRATION: If either the Company or Dr. Dur decides to sue the other over the enforceability of this Agreement, or for violating this Agreement, all such claims will be determined through final and binding arbitration, rather than through litigation in court. The arbitration will take place in the State of Mississippi, using the rules of the American Arbitration Association. If the Company or Dr. Dur wants immediate relief, before the arbitration is finished, then either party may go to a court with jurisdiction over the dispute, and ask the court for provisional injunctive or other equitable relief until the arbitrator has issued an award or the dispute otherwise resolved. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Company and Dr. Dur agree that the prevailing party in the arbitration shall be entitled to receive from the losing party reasonably incurred attorney's fees and costs incurred in enforcing this Agreement, except in any challenge by Dr. Dur to the validity of this Agreement under the Age Discrimination in Employment Act and/or Older Workers Benefit Protection Act.

7.0 **<u>COVENANT NOT TO COMPETE</u>:** For a period of two years following his Separation Date, Dr. Dur agrees that he shall not engage in any business, directly or indirectly, either as a proprietor, stockholder (other than as a holder of less than 5% of any class of the securities of a corporation registered under the Securities Exchange Act of 1934, as amended), partner, officer, employee, consultant or otherwise, and shall not provide his services in any way, to any business in the continental United States, which competes with the Company's Ships Business (as hereinafter defined). The Company's "Ships Business" means any business engaged in the design, manufacture, modification, maintenance or overhaul of ships or components thereof for the U. S. Government.

8.0 **<u>NON-INTERFERENCE</u>:** For a period of one year following his Separation Date, Dr. Dur agrees that he will not (i) communicate or have contact with the Company's employees, suppliers, or customers, where such communication may interfere with or otherwise disrupt the Company's operations or its employment or business relations with such persons, or (ii) solicit or offer to hire any person employed by the Company, or who was so employed within six months of the Separation Date.

9.0 **<u>NON-DISPARAGEMENT</u>:** Dr. Dur agrees that, following his Separation Date, he shall not issue or communicate any statement that may be critical or disparaging of the Company, its products, services, officers, directors of employees; provided, however, that the foregoing shall not apply to truthful statements made in compliance with legal process or governmental inquiry.

10.0 **<u>RETURN OF COMPANY PROPERTY</u>:** Dr. Dur agrees to return any and all Company property and equipment he may have in his possession no later than the Separation Date, except to the extent this Agreement explicitly provides to the contrary.

11.0 **<u>FULL DISCLOSURE</u>:** Dr. Dur acknowledges that he is not aware of, or has fully disclosed to the Company any matters for which he was responsible or came to his attention as an employee, which might give rise to any claim or cause of action against the Company, or the Company's subsidiaries, affiliates, successors, predecessors, assigns, officers, directors, employees and/or agents. Dr. Dur has reported to the Company all work-related injuries, if any, that he has suffered or sustained during his employment with the Company.

12.0 **<u>WITHHOLDING OF TAXES</u>:** The Company shall be entitled to withhold from any amounts payable or pursuant to this Agreement all taxes as legally shall be required (including, without limitation, United States federal taxes, and any other state, city or local taxes).

13.0 **<u>PERIOD FOR REVIEW AND CONSIDERATION OF AGREEMENT; ADVICE OF COUNSEL</u>:** Dr. Dur agrees and understands that he has been given a period of twenty-one calendar days from his receipt of this Agreement to review and consider this Agreement before signing it. Dr. Dur further understands that he may use as much of this review period as he wishes prior to signing; he can sign this Agreement at any time prior to the expiration of the twenty-one calendar day period. Dr. Dur is advised and encouraged to consult with his own legal counsel prior to signing this Agreement.

14.0 **<u>RIGHT TO REVOKE AGREEMENT</u>:** Dr. Dur may revoke this Agreement within seven (7) calendar days of signing it. Revocation can be made by delivering a written notice of revocation to Mr. J. Michael Hateley, Corporate Vice President and Chief Human Resources and Administrative Officer, Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, California 90067. For this revocation to be effective, written notice must be received by Mr. Hateley no later than 5:00 p.m. PDT on the seventh (7th) calendar day after Dr. Dur signs this Agreement. If Dr. Dur revokes this Agreement, it shall not be effective or enforceable, and Dr. Dur will not receive the benefits described in Section 3 of this Agreement.

15.0 **<u>NON-ADMISSION OF LIABILITY</u>:** Nothing contained herein shall be construed as an admission by either Dr. Dur or by the Company of liability of any kind.

16.0 **<u>COOPERATION</u>:** Dr. Dur agrees that, for at least two years following his separation from Northrop Grumman, he will reasonably cooperate with Northrop Grumman requests for assistance in connection with serving as a witness or providing information as to matters connected with his prior employment with Northrop Grumman. The Company will pay any actual and reasonable travel expenses incurred by Dr. Dur in providing such cooperation consistent with its policy for reimbursing such expenses for actively employed officers of the Company.

17.0 **<u>BENEFITS ELIGIBILITY</u>:** Nothing in this Agreement alters the eligibility rules of any benefit plan in which Dr. Dur participates.

18.0 **<u>SEVERABILITY</u>:** The provisions of this Agreement are severable, and if any part of it is found to be illegal or invalid and thereby unenforceable, the validity of the remaining parts, terms or provisions shall not be affected and

shall remain fully enforceable. The unenforceable part, term or provision shall be deemed not to be a part of this Agreement.

19.0 **SOLE AND ENTIRE AGREEMENT:** This Agreement sets forth the entire agreement between the Company and Dr. Dur, and fully supersedes any and all discussions, prior agreements or understandings between the parties pertaining to the subject matter of this Agreement; provided however, that any agreements between the Company and Dr. Dur relating to protection of Company trade secrets or intellectual property shall not be superseded by this Agreement.

20.0 **MODIFICATION:** Once this Agreement takes effect, it may not be cancelled or changed, unless done so in a document signed by both Dr. Dur and an authorized Company representative.

21.0 **GOVERNING LAW:** This Agreement shall be interpreted and enforced in accordance with the law of the State of Mississippi without regard to rules regarding conflicts of law.

22.0 **ADVICE OF COUNSEL; VOLUNTARY AGREEMENT:**

DR. DUR ACKNOWLEDGES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS, CONFER WITH COUNSEL, AND CONSIDER ALL OF THE PROVISIONS OF THIS AGREEMENT

BEFORE SIGNING IT. HE FURTHER AGREES THAT HE HAS READ THIS AGREEMENT **CAREFULLY**, THAT HE UNDERSTANDS IT, AND THAT HE IS VOLUNTARILY ENTERING INTO IT. DR. DUR UNDERSTANDS AND ACKNOWLEDGES THAT THIS AGREEMENT CONTAINS HIS RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

DATED: JULY 26, 2005

By: /S/ PHILIP A. DUR
PHILIP A. DUR

DATED: JULY 26, 2005

By: /S/ J. MICHAEL HATELEY
NORTHROP GRUMMAN CORPORATION
J. MICHAEL HATELEY
CORPORATE VICE PRESIDENT
AND CHIEF HUMAN RESOURCES
AND ADMINISTRATIVE OFFICER

Exhibit 10.7

Non-Employee Director Compensation
(effective June 1, 2005)

Component of Pay	Amount
Board Retainer	$100,000
Audit Committee Retainer	$ 10,000
Audit Chair Retainer	$ 20,000
Compensation Chair Retainer	$ 10,000
Other Chair Retainer	$ 5,000
Amount deferred to Stock Units	$100,000

Exhibit 10.8

**FIRST AMENDMENT TO THE
NORTHROP GRUMMAN
SAVINGS EXCESS PLAN
(AMENDED AND RESTATED EFFECTIVE AS OF OCTOBER 1, 2004)**

This amendment to the October 1, 2004 restatement of the Northrop Grumman Savings Excess Plan (the "Plan") is intended to merge into this Plan the liabilities of the BDM International, Inc. 1997 Executive Deferred Compensation Plan (the "BDM Plan").

This amendment is effective as of April 29, 2005. The Company has full discretionary authority to interpret this amendment to avoid treatment as a material modification under Internal Revenue Code Section 409A ("Section 409A") of the Plan or the BDM Plan, and to avoid taxation of any individual under Section 409A. If and to the extent that any feature of this amendment is considered a material modification or causes taxation under Section 409A, the amendment shall be of no effect and shall be deemed to be of no effect retroactively to the date of this action.

1. Section 4.4(b) is amended to add the following row to the end of the table as follows:

Name of Merged Plans	Merger Effective Dates	Merged Account Names
BDM International, Inc. 1997 Executive Deferred Compensation Plan ("BDM Plan")	April 29, 2005	BDM Account

2. Section 6.5(a) is renamed as "Merged Plans — General Rule."

3. Section 6.5(c) is added to read as follows:

(c) BDM Account. Distributions of a Participant's vested BDM Account balance shall be made in accordance with this Section 6.5(c), and Sections 6.1 through 6.4 shall not apply to such distributions. A Participant shall be vested in his BDM Account balance in accordance with the vesting provisions of the BDM Plan.

(1) Timing of Payment: A Participant's vested BDM Account balance shall be distributed in accordance with elections made under the BDM Plan. For those Participants who have not commenced distributions as of April 29, 2005, payments from the BDM Account will commence at the time designated

on his or her BDM enrollment and election form, unless extended prior to such date. However, if such a Participant did not elect a fixed date (or elect the earlier of a fixed date or termination of employment), his or her vested BDM Account balance will be paid as soon as administratively practicable following termination of employment in the form designated under Section 6.5(c)(2) below.

(2) Form of Payment: A Participant's vested BDM Account balance shall be paid in cash or in-kind, as elected by the Participant, as permitted by the Administrative Committee. The vested BDM Account balance will be paid in (i) a lump sum, (ii) five (5) or ten (10) substantially equal annual installments (adjusted for gains and losses), or (iii) a combination thereof, as selected by the Participant (or Beneficiary) prior to the date on which amounts are first payable to the Participant (or Beneficiary) under Section 6.5(c)(1) above. If the Participant fails to designate properly the manner of payment, such payment will be made in a lump sum.

(3) Death Benefits: If a Participant dies before commencement of payment of his BDM Account balance, the entire Account balance will be paid at the times provided in Section 6.5(c)(1) above and in the manner provided in Section 6.5(c)(2) above to his or her Beneficiary. If a Participant dies after commencement but before he or she has received all payments from his vested BDM Account balance, the remaining installments shall be paid annually to the Beneficiary. For purposes of this Section 6.5(c), a Participant's Beneficiary, unless subsequently changed, will be the designated beneficiary(ies) under the BDM Plan or if none, the Participant's spouse, if then living, but otherwise the Participant's then living descendants, if any, per stirpes, but, if none, the Participant's estate.

(4) Hardship Withdrawal: A Participant may apply for a distribution of all or any part of his or her vested BDM Account balance, to the extent necessary to alleviate the Participant's financial hardship (which financial hardship may be considered to include any taxes due because of the distribution). A "financial hardship" shall be determined by the Administrative Committee and shall mean (i) a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Code section 152(a)) of the Participant, (ii) loss of the Participant's property due to casualty, or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

(5) Lost Participant: In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within three years following the payment date under Section 6.5(c)(1) above, the amount allocated to the Participant's BDM Account shall be forfeited. If, after such forfeiture and

prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period. In lieu of such a forfeiture, the Administrative Committee has the discretion to direct distribution of the vested BDM Account balance to any one or more or all of the Participant's next of kin, and in the proportions as the Administrative Committee determines.

(6) Committee Rules: All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

(7) Payment Schedule: In no event will payments of amounts in the Participant's BDM Account be accelerated or deferred beyond the payment schedule provided under the BDM Plan.

(8) Application to Trustee: BDM International, Inc. set aside amounts in a grantor trust to assist it in meeting its obligations under the BDM Plan. Notwithstanding Section 6.5(c)(6) above and the claims procedures provided in Section 7.8, a Participant may make application for payment of benefits under this Section 6.5(c) directly to the trustee of such trust.

4. Section 7.9(b) is amended to add the following row to the end of the table as follows:

Name of Merged Plans	Merger Effective Dates
BDM International, Inc. 1997 Executive Deferred Compensation Plan	April 29, 2005

* * * *

IN WITNESS WHEREOF, this Amendment is hereby executed by a duly authorized officer on this 13 day of July, 2005.

NORTHROP GRUMMAN CORPORATION

By: /s/ Richard A. Underhill
Richard A. Underhill
Vice President Compensation and Benefits

LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

July 27, 2005

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California

We have made a review, in accordance with the standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended June 30, 2005 and 2004, as indicated in our report dated July 27, 2005; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-03959, 333-68003, 333-67266, 333-61936, 333-100179, 333-107734, 333-121104 and 333-125120 on Form S-8; Registration Statement Nos. 333-78251, 333-85633, 333-71290, and 333-77056 on Form S-3; and Registration Statement Nos. 333-40862, 333-54800, and 333-83672 on Form S-4.

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

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

Exhibit 31.1

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

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

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

Date: July 27, 2005

/s/ Ronald D. Sugar

Ronald D. Sugar
Chairman, Chief Executive
Officer and President

Exhibit 31.2

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

I, Wesley G. Bush, Corporate Vice President and Chief Financial Officer, certify that:

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

Date: July 27, 2005

/s/ Wesley G. Bush
Wesley G. Bush
Corporate Vice President
and Chief Financial
Officer

Exhibit 32.1

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

In connection with the Quarterly Report of Northrop Grumman Corporation (the "company") on Form 10-Q for the period ending June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald D. Sugar, Chairman, Chief Executive Officer and President of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: July 27, 2005

/s/ Ronald D. Sugar

Ronald D. Sugar
Chairman, Chief Executive
Officer and President

Exhibit 32.2

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

In connection with the Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ending June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Wesley G. Bush, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: July 27, 2005

/s/ Wesley G. Bush

Wesley G. Bush
Corporate Vice President
and Chief Financial
Officer