FORM 10-Q

NORTHROP GRUMMAN CORP /DE/ - NOC

Filed: April 24, 2008 (period: March 31, 2008)

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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 March 31, 2008

or

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

Commission File Number 1-16411

NORTHROP GRUMMAN CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting Company	☐

Indicate by check mark whether the registrant is a shell company (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 April 22, 2008, 342,057,191 shares of common stock were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

$ in millions, except per share	Three Months Ended March 31 **2008**	2007
Sales and Service Revenues		
Product sales	**$ 4,394**	$ 4,140
Service revenues	**3,330**	3,174
Total sales and service revenues	**7,724**	7,314
Cost of Sales and Service Revenues		
Cost of product sales	**3,729**	3,168
Cost of service revenues	**2,793**	2,749
General and administrative expenses	**738**	707
Operating income	**464**	690
Other Income (Expense)		
Interest income	**7**	7
Interest expense	**(77)**	(89)
Other, net	**15**	(8)
Earnings from continuing operations before income taxes	**409**	600
Federal and foreign income taxes	**146**	206
Earnings from continuing operations	**263**	394
Income (Loss) from discontinued operations, net of tax	**1**	(7)
Net earnings	**$ 264**	$ 387
Basic Earnings (Loss) Per Share		
Continuing operations	**$ .78**	$ 1.14
Discontinued operations		(.02)
Basic earnings per share	**$ .78**	$ 1.12
Weighted-average common shares outstanding, in millions	**338.8**	345.3
Diluted Earnings (Loss) Per Share		
Continuing operations	**$ .76**	$ 1.12
Discontinued operations		(.02)
Diluted earnings per share	**$ .76**	$ 1.10
Weighted-average diluted shares outstanding, in millions	**349.3**	358.3

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

$ in millions	**March 31, 2008**	December 31, 2007
Assets:		
Cash and cash equivalents	**$ 429**	$ 963
Accounts receivable, net of progress payments of $41,983 in 2008 and $40,475 in 2007	**4,358**	3,790
Inventoried costs, net of progress payments of $1,479 in 2008 and $1,345 in 2007	**1,132**	1,000
Deferred income taxes	**529**	542
Prepaid expenses and other current assets	**501**	502
Total current assets	**6,949**	6,797
Property, plant, and equipment, net of accumulated depreciation of $3,552 in 2008 and $3,424 in 2007	**4,645**	4,690
Goodwill	**17,620**	17,672
Other purchased intangibles, net of accumulated amortization of $1,711 in 2008 and $1,687 in 2007	**1,020**	1,074
Pension and postretirement benefits asset	**2,103**	2,080
Other assets	**1,038**	1,060
Total assets	**$ 33,375**	$ 33,373
Liabilities:		
Notes payable to banks	**$ 59**	$ 26
Current portion of long-term debt	**110**	111
Trade accounts payable	**1,806**	1,890
Accrued employees' compensation	**1,248**	1,175
Advance payments and billings in excess of costs incurred	**1,834**	1,563
Other current liabilities	**1,680**	1,667
Total current liabilities	**6,737**	6,432
Long-term debt, net of current portion	**3,928**	3,918
Mandatorily redeemable preferred stock	**46**	350
Pension and postretirement benefits liability	**3,059**	3,008
Other long-term liabilities	**2,004**	1,978
Total liabilities	**15,774**	15,686
Commitments and Contingencies (Note 10)		
Shareholders' Equity:		
Common stock, $1 par value; 800,000,000 shares authorized; issued and outstanding: 2008 — 339,155,655; 2007 — 337,834,561	**339**	338
Paid-in capital	**10,438**	10,661
Retained earnings	**7,518**	7,387
Accumulated other comprehensive loss	**(694)**	(699)
Total shareholders' equity	**17,601**	17,687
Total liabilities and shareholders' equity	**$ 33,375**	$ 33,373

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31	
$ in millions	**2008**	2007
Net earnings	**$ 264**	$ 387
Other comprehensive income (loss)		
Change in cumulative translation adjustment	**3**	2
Change in unrealized loss on marketable securities, net of tax	**(2)**	
Change in unamortized benefit plan costs, net of tax	**4**	8
Other comprehensive income, net of tax	**5**	10
Comprehensive income	**$ 269**	$ 397

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN CASH FLOWS
(Unaudited)

$ in millions	Three Months Ended March 31 **2008**	2007
Operating Activities		
Sources of Cash—Continuing Operations		
Cash received from customers		
Progress payments	**$ 1,608**	$ 1,532
Collections on billings	**5,950**	5,745
Income tax refunds received	**2**	1
Interest received	**7**	7
Proceeds from insurance carriers related to operations	**5**	
Other cash receipts	**28**	15
Total sources of cash-continuing operations	**7,600**	7,300
Uses of Cash—Continuing Operations		
Cash paid to suppliers and employees	**(7,189)**	(6,676)
Interest paid	**(113)**	(127)
Income taxes paid	**(54)**	(22)
Excess tax benefits from stock-based compensation	**(44)**	(52)
Other cash payments	**(3)**	(9)
Total uses of cash-continuing operations	**(7,403)**	(6,886)
Cash provided by continuing operations	**197**	414
Cash used in discontinued operations	**(3)**	(14)
Net cash provided by operating activities	**194**	400
Investing Activities		
Payment for businesses purchased, net of cash acquired		(578)
Additions to property, plant, and equipment	**(143)**	(158)
Payments for outsourcing contract and related software costs	**(35)**	(30)
Proceeds from insurance carriers related to capital expenditures		3
Proceeds from disposals of property, plant and equipment	**3**	
Decrease in restricted cash	**26**	15
Other investing activities, net	**1**	1
Net cash used in investing activities	**(148)**	(747)
Financing Activities		
Net borrowings under lines of credit	**33**	230
Principal payments of long-term debt		(23)
Proceeds from exercises of stock options and issuance of common stock	**69**	156
Dividends paid	**(126)**	(121)
Excess tax benefits from stock-based compensation	**44**	52
Common stock repurchases	**(600)**	(600)
Net cash used in financing activities	**(580)**	(306)
Decrease in cash and cash equivalents	**(534)**	(653)
Cash and cash equivalents, beginning of period	**963**	1,015
Cash and cash equivalents, end of period	**$ 429**	$ 362

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$ in millions	Three Months Ended March 31 2008	2007
Reconciliation of Net Earnings to Net Cash Provided by Operating Activities		
Net Earnings	**$ 264**	$ 387
Adjustments to reconcile to net cash provided by operating activities		
Depreciation	**136**	135
Amortization of assets	**62**	34
Stock-based compensation	**44**	38
Excess tax benefits from stock-based compensation	**(44)**	(52)
Loss on disposals of property, plant, and equipment	**1**	
Amortization of long-term debt premium	**(3)**	(3)
Decrease (increase) in		
Accounts receivable	**(2,080)**	(1,436)
Inventoried costs	**(266)**	(89)
Prepaid expenses and other current assets	**(15)**	18
Increase (decrease) in		
Progress payments	**1,642**	1,390
Accounts payable and accruals	**254**	(264)
Deferred income taxes	**26**	(4)
Income taxes payable	**112**	177
Retiree benefits	**31**	47
Other non-cash transactions, net	**33**	36
Cash provided by continuing operations	**197**	414
Cash used in discontinued operations	**(3)**	(14)
Net cash provided by operating activities	**$ 194**	$ 400
Non-Cash Investing and Financing Activities		
Purchase of business		
Fair value of assets acquired, including goodwill		$ 682
Cash paid for businesses purchased		(578)
Liabilities assumed		$ 104
Mandatorily redeemable preferred stock converted into common stock	**$ 304**	
Capital Leases		$ 21

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

NORTHROP GRUMMAN CORPORATION

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

	Three Months Ended March 31	
$ in millions, except per share	**2008**	2007
Common Stock		
At beginning of period	**$ 338**	$ 346
Common stock repurchased	**(8)**	(8)
Conversion of preferred stock	**6**	
Employee stock awards and options	**3**	5
At end of period	**339**	343
Paid-in Capital		
At beginning of period	**10,661**	11,346
Common stock repurchased	**(592)**	(592)
Conversion of preferred stock	**298**	
Employee stock awards and options	**71**	169
At end of period	**10,438**	10,923
Retained Earnings		
At beginning of period	**7,387**	6,183
Net earnings	**264**	387
Adoption of new accounting standards	**(3)**	(66)
Dividends	**(130)**	(130)
At end of period	**7,518**	6,374
Accumulated Other Comprehensive Loss		
At beginning of period	**(699)**	(1,260)
Adjustment to deferred tax benefit recorded on adoption of SFAS No. 158		(46)
Other comprehensive income	**5**	10
At end of period	**(694)**	(1,296)
Total shareholders' equity	**$ 17,601**	$ 16,344
Cash dividends per share	**$ .37**	$ .37

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 and its subsidiaries (the company). All material intercompany accounts, transactions, and profits are eliminated in consolidation.

The accompanying unaudited consolidated condensed financial statements of the company have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. These statements include all adjustments considered necessary by management to present a fair statement of the consolidated 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 audited Consolidated Financial Statements, including the notes thereto contained in the company's 2007 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 the 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 (GAAP). The preparation of the financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

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

$ in millions	**March 31, 2008**	December 31, 2007
Cumulative translation adjustment	**$ 37**	$ 34
Unrealized gain (loss) on marketable securities, net of tax	**1**	3
Unamortized benefit plan costs, net of tax benefit of $468 as of March 31, 2008, and $470 as of December 31, 2007, respectively	**(732)**	(736)
Total accumulated other comprehensive loss	**$ (694)**	$ (699)

Financial Statement Reclassifications – Certain amounts in the prior period financial statements and related notes have been reclassified to conform to the 2008 presentation, due to the disposition of certain businesses (Note 5).

2. NEW ACCOUNTING STANDARDS

Adoption of New Accounting Standards

The disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 157 – *Fair Value Measurements*, which took effect on January 1, 2008, are presented in Note 3. On January 1, 2009, the company will implement the previously-deferred provisions of SFAS No. 157 for nonfinancial assets and liabilities recorded at fair value as required. Management does not believe that the remaining provisions will have a material effect on the company's consolidated financial position or results of operations when they become effective.

During the three months ended March 31, 2007, an adjustment was made to shareholders' equity related to the adoption of new accounting standards as previously disclosed; $66 million as a reduction of retained earnings in accordance with Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48 – *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (see also Note 13).

Standards Issued But Not Yet Effective

In December 2007, the FASB issued SFAS No. 141(R) – *Business Combinations*. SFAS No. 141(R) expands the definition of a business, thus increasing the number of transactions that will qualify as business combinations. SFAS No. 141(R) requires the acquirer to recognize 100 percent of an acquired business' assets and liabilities, including goodwill and certain contingent assets and liabilities, at their fair values at the acquisition date. Contingent consideration will be recognized at fair value on the acquisition date, with changes in fair value recognized in earnings until settled. Likewise, changes in acquired tax contingencies, including those existing at the date of adoption, will be recognized in earnings if outside the maximum allocation period (generally one year). Transaction-related expenses and restructuring costs will be expensed as incurred, and any adjustments to finalize the purchase accounting allocations, even within the allocation period, will be shown as revised in the future financial statements to reflect the adjustments as if they had been recorded on the acquisition date. Finally, a gain could result in the event of a bargain purchase (acquisition of a business below the fair market value of the assets and liabilities), or a gain or loss in the case of a change in the control of an existing investment. SFAS No. 141(R) will be applied prospectively to business combinations with acquisition dates on or after January 1, 2009. Adoption is not expected to materially impact the company's consolidated financial position or results of operations directly when it becomes effective in 2009, as the only impact that the standard will have on recorded amounts at that time relates to disposition of uncertain tax positions related to prior acquisitions. Following the date of adoption of the standard, the resolution of such items at values that differ from recorded amounts will be adjusted through earnings, rather than through goodwill. Adoption of this statement is, however, expected to have a significant effect on how acquisition transactions subsequent to January 1, 2009 are reflected in the financial statements.

In December 2007, the FASB issued SFAS No. 160 – *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin (ARB) No. 51.* SFAS No. 160 requires (1) presentation of ownership interests in consolidated subsidiaries held by parties other than the parent within equity in the consolidated statements of financial position, but separately from the parent's equity; (2) separate presentation of the consolidated net income attributable to the parent and to the minority interest on the face of the consolidated statements of income; (3) accounting for changes in a parent's ownership interest where the parent retains its controlling financial interest in its subsidiary as equity transactions; (4) initial measurement of the noncontrolling interest retained for any deconsolidated subsidiaries at fair value with recognition of any resulting gains or losses through earnings; and (5) additional disclosures that identify and distinguish between the interests of the parent and noncontrolling owners. SFAS No. 160 is effective for the company beginning January 1, 2009. Adoption of this statement is not expected to have a material impact on the company's consolidated financial position or results of operations when it becomes effective in 2009, but may significantly affect the accounting for noncontrolling (or minority) interests from that date forward.

In December 2007, the Emerging Issues Task Force (EITF) issued EITF Issue No. 07-1 – *Accounting for Collaborative Arrangements*. EITF Issue No. 07-1 defines collaborative arrangements and establishes reporting and disclosure requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF Issue No. 07-1 is effective for the company beginning January 1, 2009. Management is currently evaluating the effect that adoption of this issue will have on the company's consolidated financial position or results of operations when it becomes effective in 2009.

Other new pronouncements issued but not effective until after March 31, 2008 are not expected to have a significant effect on the company's consolidated financial position or results of operations.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of March 31, 2008, there were marketable equity securities of $65 million included in prepaid expenses and other current assets and $160 million of marketable debt and equity securities included in other long-term assets, all of which are recorded at fair value based upon quoted market prices. These investments can be liquidated without restriction. Other financial instruments recorded at fair value based on significant other observable inputs are not material. As of March 31, 2008, the company has no other assets or liabilities that are measured at fair value on a recurring basis.

4. DIVIDENDS ON COMMON STOCK AND CONVERSION OF PREFERRED STOCK

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

On February 21, 2007, the company's board of directors approved a 23 percent increase to the quarterly common stock dividend, from $.30 per share to $.37 per share, effective with the first quarter 2007 dividend.

Conversion of Preferred Stock – On February 20, 2008, the company's Board of Directors approved the redemption of the 3.5 million shares of mandatorily redeemable Series B convertible preferred stock on April 4, 2008. As of March 31, 2008, 3 million shares had been converted at the option of the holder into 5.5 million shares of common stock. Had the redemption of the remaining 0.5 million preferred shares taken place at March 31, 2008, each share would have been redeemed for 1.295 shares of common stock.

Subsequent to March 31, 2008, substantially all of the 0.5 million remaining preferred shares were converted at the option of the holder. All remaining shares were redeemed by the company. As a result of the redemption and conversion the company issued approximately 6.4 million shares of common stock.

5. BUSINESS ACQUISITIONS AND DISPOSITIONS

Acquisitions

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

AMSEC – In July 2007, the company and Science Applications International Corporation (SAIC) reorganized their joint venture AMSEC, LLC (AMSEC), by dividing AMSEC along customer and product lines. Under the reorganization plan, the company retained the ship engineering, logistics and technical service businesses under the AMSEC name (the AMSEC Businesses) and, in exchange, SAIC received the aviation, combat systems and strike force integration services businesses from AMSEC (the Divested Businesses). Prior to the reorganization, including the three month period ending March 31, 2007, the company accounted for AMSEC, LLC under the equity method, whereas during the three months ended March 31, 2008, the results of operations of the AMSEC Businesses were consolidated.

Dispositions

Electro-Optical Systems – In March 2008, the company signed a definitive agreement to sell its Electro-Optical Systems business for $175 million in cash to L-3 Communications Corporation. The transaction closed in April 2008 and the company expects to recognize a small after-tax gain. Electro-Optical Systems, a part of the company's Electronics segment, produces night vision and applied optics products and had sales and (loss) earnings after tax of approximately $190 million and ($8) million in fiscal year 2007 and $43 million and $1 million for the three months ended March 31, 2008, respectively. Operating results of this business are immaterial and reported as discontinued operations in the consolidated condensed statements of operations for all periods presented.

ITD – During the second quarter of 2007, management announced its decision to exit the remaining ITD business reported within the Electronics segment. Sales for this business for the three months ended March 31, 2007, were $4 million. The shut-down was completed during the third quarter of 2007 and costs associated with the shutdown were not material. The results of this business are reported as discontinued operations in the consolidated condensed statements of operations.

6. SEGMENT INFORMATION

The company is aligned into seven segments categorized into four primary businesses. The Mission Systems, Information Technology, and Technical Services segments are presented as Information & Services. The Integrated Systems and Space Technology segments are presented as Aerospace. The Electronics and Shipbuilding segments are each presented as separate businesses.

In January 2008, the Newport News and Ship Systems businesses were realigned into a single segment called Northrop Grumman Shipbuilding to enable the company to more effectively utilize its shipbuilding assets and deploy its shipbuilders, processes, technologies, production facilities and planned capital investments to meet customer needs. This realignment had no impact on the company's consolidated financial position, results of operations, cash flows, or segment reporting. Previously, these businesses were separate operating segments which were aggregated into a single segment for financial reporting purposes. In addition, certain Electronics businesses were transferred to Mission Systems effective January 2008. The transfer of these businesses did not have a material effect on the company's consolidated financial position, results of operations, or cash flows.

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

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

In January 2008, the company announced the transfer of certain programs and assets from the Mission Systems segment to the Space Technology segment, effective July 1, 2008. This transfer will allow Mission Systems to focus on the rapidly growing command, control, communications, computers, intelligence, surveillance, and reconnaissance business, and the missiles business will be an integrated element of the company's Aerospace business growth strategy. This subsequent realignment is not reflected in any of the accompanying financial information.

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The following table presents segment sales and service revenues for the three months ended March 31, 2008 and 2007.

	Three Months Ended March 31	
$ in millions	**2008**	2007
Sales and Service Revenues		
Information & Services		
Mission Systems	**$ 1,545**	$ 1,395
Information Technology	**1,085**	1,038
Technical Services	**505**	520
Total Information & Services	**3,135**	2,953
Aerospace		
Integrated Systems	**1,340**	1,281
Space Technology	**775**	754
Total Aerospace	**2,115**	2,035
Electronics	**1,555**	1,528
Shipbuilding	**1,264**	1,156
Intersegment eliminations	**(345)**	(358)
Total sales and service revenues	**$ 7,724**	$ 7,314

The following table presents segment operating income reconciled to total operating income for the three months ended March 31, 2008 and 2007.

	Three Months Ended March 31	
$ in millions	**2008**	2007
Operating Income		
Information & Services		
Mission Systems	**$ 145**	$ 117
Information Technology	**89**	86
Technical Services	**26**	28
Total Information & Services	**260**	231
Aerospace		
Integrated Systems	**170**	160
Space Technology	**65**	59
Total Aerospace	**235**	219
Electronics	**209**	192
Shipbuilding	**(218)**	79
Intersegment eliminations	**(28)**	(29)
Total segment operating income	**458**	692
Non-segment factors affecting operating income		
Unallocated expenses	**(32)**	(32)
Net pension adjustment	**59**	33
Reversal of royalty income included above	**(21)**	(3)
Total operating income	**$ 464**	$ 690

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

Lack of progress in LHD-8 on-board testing preparatory to sea trials prompted the company to undertake a comprehensive review of the program, including a detailed physical audit of the ship. From this review, management became aware in March 2008 of the need for substantial rework on the ship, primarily in electrical cable installations. As a result, management recorded a pre-tax charge of $272 million for the additional vessel labor, materials and level-of-effort support required to perform the rework and complete the ship. The charge directly impacted the company's earnings and the contract is now in a forward loss position. The LHD-8 is now expected to be delivered in the second quarter of 2009.

As a result of the impact on workforce re-deployment caused by the delay in LHD-8, an evaluation was performed on other ships under construction at the Gulf Coast shipyards. Based on this evaluation, and a review of other program risk factors, management recorded a pre-tax charge of $35 million representing the cost and schedule impacts on these programs.

The company also evaluated the possible impairment of assets, including goodwill, caused by the delay in LHD-8. As a result, purchased intangibles with a net book value of $19 million associated with LHD-8 and other programs were written off. Management has put in place new leadership team assignments on the LHD-8 contract and will be applying known and proven quality control processes from the company's other shipbuilding areas and elsewhere in the company to strengthen the quality assurance levels in the Gulf Coast shipbuilding operations. While management believes the charges above are adequate to cover known risk to date and that the steps taken to improve quality assurance will be effective, the LHD-8 program is on-going and the company's efforts and the end results must be satisfactory to the customer. The company believes that its estimate of costs to complete the LHD-8 contract reflects appropriate cost estimates based on known information, but cannot provide absolute assurance that additional costs will not be required.

The aggregate effect of the foregoing is that a pre-tax charge of $326 million was recognized in the three months ended March 31, 2008.

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

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

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

7. EARNINGS PER SHARE

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

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Diluted Earnings Per Share – Diluted earnings per share include the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans, and the company's mandatorily redeemable Series B convertible preferred stock. The dilutive effect of these securities totaled 10.5 million shares and 13 million shares (including 4.5 million shares and 6.4 million shares for the preferred stock, respectively) for the three months ended March 31, 2008 and 2007, respectively. The weighted-average diluted shares outstanding for the three months ended March 31, 2008 and 2007, exclude stock options to purchase approximately 1.3 million and 74,000 shares, respectively, because such options have an exercise price in excess of the average market price of the company's common stock during the period.

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

in millions, except per share	Three Months Ended March 31 2008	2007
Diluted Earnings per Share		
Earnings from continuing operations	**$ 263**	$ 394
Add dividends on mandatorily redeemable convertible preferred stock	**1**	6
Earnings available to common shareholders from continuing operations	**$ 264**	$ 400
Weighted-average common shares outstanding	**338.8**	345.3
Dilutive effect of stock options, awards and mandatorily redeemable convertible preferred stock	**10.5**	13.0
Weighted-average diluted shares outstanding	**349.3**	358.3
Diluted earnings per share from continuing operations	**$ .76**	$ 1.12

Share Repurchases – The table below summarizes the company's share repurchases beginning January 1, 2006:

Authorization Date	Amount Authorized (in billions)	Average Price Per Share	Total Shares Retired (in millions)	Date Completed	Shares Repurchased (in millions) Three Months Ended March 31 2008	2007
October 24, 2005	$ 1.5	$ 65.08	23.0	February 2007		2.3
December 14, 2006	1.0	75.96	13.1	November 2007		5.7
December 19, 2007	2.5	79.13	7.6		**7.6**	
					7.6	8.0

As part of the share repurchase programs, the company entered into an accelerated share repurchase agreement in February 2007 with a bank to repurchase shares of common stock. The shares were immediately borrowed by the bank and then sold to and canceled by the company. Subsequently, shares were purchased in the open market by the bank to settle its share borrowings. Under this arrangement, the ultimate cost of the company's share repurchases was subject to adjustment based on the actual cost of the shares subsequently purchased by the bank. If an additional amount was owed by the company upon settlement, the price adjustment could have been settled, at the company's option, in cash or in shares of common stock. The final price adjustment under this agreement was immaterial.

Share repurchases take place at management's discretion or under pre-established non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions.

The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

As of March 31, 2008, the company has $1.9 billion authorized for share repurchases.

8. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

The changes in the carrying amounts of goodwill for the three months ended March 31, 2008, were as follows:

$ in millions	Balance as of December 31, 2007	Goodwill Transferred in Segment Realignment	Goodwill Transferred to Discontinued Operations	Fair Value Adjustments to Net Assets Acquired	**Balance as of March 31, 2008**
Mission Systems	$ 4,677	$ 47		$ 1	**$ 4,725**
Information Technology	2,184				**2,184**
Technical Services	810				**810**
Integrated Systems	1,021			(7)	**1,014**
Space Technology	2,852			2	**2,854**
Electronics	2,514	(47)	$ (47)	(7)	**2,413**
Shipbuilding	3,614			6	**3,620**
Total	$ 17,672	$	$ (47)	$ (5)	**$ 17,620**

Purchased Intangible Assets

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

	March 31, 2008			December 31, 2007		
$ in millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Contract and program intangibles	**$ 2,631**	**$ (1,639)**	**$ 992**	$ 2,661	$ (1,616)	$ 1,045
Other purchased intangibles	**100**	**(72)**	**28**	100	(71)	29
Total	**$ 2,731**	**$ (1,711)**	**$ 1,020**	$ 2,761	$ (1,687)	$ 1,074

During the three months ended March 31, 2008, the company evaluated the possible impairment of assets, including goodwill, caused by the delay in the LHD-8 program (see Note 6). As a result, purchased intangibles with a net book value of $19 million were written off associated with the LHD-8 and other programs.

The company's purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an aggregate weighted-average period of 21 years. Aggregate amortization expense for the three months ended March 31, 2008, was $53 million, including $19 million of additional amortization related to the write off above.

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

$ in millions

Year Ending December 31	
2008 (April 1 – December 31)	$ 83
2009	100
2010	91
2011	54
2012	52
2013	42

9. LITIGATION

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

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

As previously disclosed, on May 17, 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Program for eight converted 123-foot patrol boats (the vessels) based on alleged "hull buckling and shaft alignment problems." By letter dated June 5, 2007, the Coast Guard stated that the revocation of acceptance also was based on alleged "nonconforming topside equipment" on the vessels. On August 13, 2007, the company submitted a response to the Coast Guard, maintaining that the revocation of acceptance was improper. In late December 2007, the Coast Guard responded to the company's August submittal and advised Integrated Coast

Guard Systems (the contractors' joint venture for performing the Deepwater Program) that the Coast Guard is seeking $96.1 million from the Joint Venture as a result of the revocation of acceptance of the eight vessels delivered under the 123-foot conversion program. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with the company and a subcontractor to the company. The letter is not a contracting officer's final decision and the company and its joint venture partner and subcontractor are preparing a response. Based upon the information available to the company to date, the company believes that it has substantive defenses but can give no assurance that its views will prevail.

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

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

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

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

10. COMMITMENTS AND CONTINGENCIES

Contract Performance Contingencies – Contract profit margins may include estimates of revenues not contractually agreed to between the customer and the company for matters such as incentives, contract changes, negotiated settlements, claims and requests for equitable adjustment for previously unanticipated contract costs. These estimates are based upon management's best assessment of the underlying causal events and circumstances, and are included in determining contract profit margins to the extent of expected recovery based on contractual entitlements and the probability of successful negotiation with the customer. As of March 31, 2008, the amounts related to the aforementioned items are not material individually or in the aggregate.

In April 2007, the company was notified by the prime contractor on the Wedgetail contract under the Multirole Electronic Scanned Array (MESA) program that it anticipates the prime contractor's delivery dates will be late and this could subject the prime contractor to liquidated damages from the customer. Should liquidated damages be assessed, the company would share in a proportionate amount of those damages to a maximum of approximately $40 million. As of March 31, 2008, the company has not been notified by the prime contractor as to any claim for liquidated damages. Until such time as additional information is available from the prime contractor, it is not possible to determine the impact to the consolidated financial statements, if any, for this matter.

Environmental Matters – In accordance with company policy on environmental remediation, the estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency, or similarly designated by other environmental agencies. To assess the potential impact on the company's consolidated financial statements, management estimates the total reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that as of March 31, 2008, the range of reasonably possible future costs for environmental remediation sites was $189 million to $275 million, of which $231 million is accrued in other current liabilities. Factors that could result in changes to the company's estimates include: modification of planned remedial actions, increases or decreases in the estimated time required to remediate, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the company may have to incur costs in addition to those already estimated and accrued. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's consolidated financial position, results of operations, or cash flows.

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

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

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

Co-Operative Agreements – In 2003, Shipbuilding executed agreements with the states of Mississippi and Louisiana whereby Shipbuilding leases facility improvements and equipment from Mississippi and from a non-profit economic development corporation in Louisiana in exchange for certain commitments by Shipbuilding to these states. As of March 31, 2008, Shipbuilding has fully met its obligations under the Mississippi agreement and has met all but one requirement under the Louisiana agreement related to minimum employment levels. Failure by

Shipbuilding to meet the remaining Louisiana commitment would result in reimbursement by Shipbuilding to Louisiana in accordance with the agreement. As of March 31, 2008, Shipbuilding expects that the remaining commitment under the Louisiana agreement will be met based on its most recent business plan.

Financial Arrangements – In the ordinary course of business, the company utilizes standby letters of credit and guarantees issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company's self-insured workers' compensation plans. At March 31, 2008, there were $495 million of unused standby letters of credit, $149 million of bank guarantees, and $540 million of surety bonds outstanding.

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

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

U.S. Government Claims – During the second quarter of 2006, the U.S. Government advised the company of claims and penalties concerning certain potential disallowed costs. The parties are engaged in discussions to enable the company to evaluate the merits of these claims as well as to assess the amounts being claimed. The company believes, but can give no assurance, that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Operating Leases – Rental expense for operating leases, excluding discontinued operations, for the three months ended March 31, 2008 and 2007 was $139 million and $130 million, respectively, net of immaterial amounts of sublease rental income.

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

11. RETIREMENT BENEFITS

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

	Three Months Ended March 31			
	Benefits Pension		Medical and Life Benefits	
$ in millions	**2008**	2007	**2008**	2007
Components of Net Periodic Benefit Cost				
Service cost	**$ 181**	$ 196	**$ 14**	$ 13
Interest cost	**334**	312	**41**	41
Expected return on plan assets	**(475)**	(443)	**(16)**	(15)
Amortization of:				
Prior service costs	**10**	10	**(16)**	(16)
Net loss from previous years	**6**	12	**5**	6
Net periodic benefit cost	**$ 56**	$ 87	**$ 28**	$ 29
Defined contribution plans cost	**$ 75**	$ 82		

Employer Contributions – The company expects to contribute approximately $121 million to its pension plans and approximately $201 million to its medical and life benefit plans in 2008. As of March 31, 2008, contributions of

$26 million and $26 million have been made to the company's pension plans and its medical and life benefit plans, respectively.

12. STOCK COMPENSATION PLANS

At March 31, 2008, Northrop Grumman had stock-based compensation awards outstanding under the following plans: the 2001 Long-Term Incentive Stock Plan, the 1993 Long-Term Incentive Stock Plan, both applicable to employees, and the 1993 Stock Plan for Non-Employee Directors and 1995 Stock Plan for Directors as amended. All of these plans were approved by the company's shareholders. Share-based awards under the employee plans consist of stock option awards (Stock Options) and restricted stock awards (Stock Awards).

Compensation Expense – Total pre-tax stock-based compensation for the three months ended March 31, 2008 and 2007, was $44 million and $38 million, respectively, of which $4 million in each period was related to Stock Options and the remainder related to Stock Awards. Tax benefits recognized in the consolidated condensed statements of income for stock-based compensation during the three months ended March 31, 2008 and 2007, were $17 million and $15 million, respectively. In addition, the company realized tax benefits of $20 million and $30 million from the exercise of Stock Options and $94 million and $77 million from the issuance of Stock Awards in the three months ended March 31, 2008 and 2007, respectively.

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

The significant weighted average assumptions relating to the valuation of the company's Stock Options for the three months ended March 31, 2008 and 2007, were as follows:

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

The weighted-average grant date fair value of Stock Options granted during each of the three months ended March 31, 2008 and 2007, was $15 per share.

Stock Option activity for the three months ended March 31, 2008, was as follows:

	Shares Under Option (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($ in millions)
Outstanding at January 1, 2008	14,883	$ 51	4.6 years	$ 416
Granted	1,303	81		
Exercised	(1,605)	48		
Cancelled and forfeited	(51)	62		
Outstanding at March 31, 2008	**14,530**	**$ 54**	**5.1 years**	**$ 355**
Vested and expected to vest in the future at March 31, 2008	14,402	$ 54	5.1 years	$ 354
Exercisable at March 31, 2008	12,180	$ 50	4.3 years	$ 342
Available for grant at March 31, 2008	10,822			

The total intrinsic value of options exercised during the three months ended March 31, 2008 and 2007, was $51 million and $77 million, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at March 31, 2008 (for outstanding options), less the applicable exercise price.

Stock Awards – Compensation expense for Stock Awards is measured at the grant date based on fair value and recognized over the vesting period. The fair value of Stock Awards is determined based on the closing market price of the company's common stock on the grant date. For purposes of measuring compensation expense, the amount of shares ultimately expected to vest is estimated at each reporting date based on management's expectations regarding the relevant performance criteria. In the table below, the share adjustment resulting from the final performance measure is considered granted in the period that the related grant is vested. During the three months ended March 31, 2008, 2.9 million shares of common stock were issued to employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $233 million and a grant date fair value of $155 million. During the three months ended March 31, 2007, 2.6 million shares of common stock were issued to employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $198 million and a grant date fair value of $124 million. There were 2.6 million Stock Awards granted in the three months ended March 31, 2007, with a weighted-average grant date fair value of $64 per share.

Stock Award activity for the three months ended March 31, 2008, was as follows:

	Stock Awards (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term
Outstanding at January 1, 2008	5,144	$ 67	1.3 years
Granted (including performance adjustment on shares vested)	1,571	75	
Vested	(86)	53	
Forfeited	(225)	60	
Outstanding at March 31, 2008	**6,404**	**$ 70**	**1.5 years**
Available for grant at March 31, 2008	3,582		

Unrecognized Compensation Expense – At March 31, 2008, there was $312 million of unrecognized compensation expense related to unvested awards granted under the company's stock-based compensation plans, of which

$31 million relates to Stock Options and $281 million relates to Stock Awards. These amounts are expected to be charged to expense over a weighted-average period of 1.8 years.

13. INCOME TAXES

The company's effective tax rates on income from continuing operations were 35.7 percent and 34.3 percent for the three months ended March 31, 2008 and 2007, respectively. As a result of the implementation of FIN 48, the company made a comprehensive review of its portfolio of uncertain tax positions in accordance with the recognition standards established by FIN 48. In this regard, an uncertain tax position represents the company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes.

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

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

NORTHROP GRUMMAN CORPORATION

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying consolidated condensed statement of financial position of Northrop Grumman Corporation and subsidiaries as of March 31, 2008, and the related consolidated condensed statements of operations, comprehensive income, cash flows and changes in shareholders' equity for the three-month periods ended March 31, 2008 and 2007. These interim financial statements are the responsibility of the Corporation's management.

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

Based on our reviews, we are not aware of any material modifications that should be made to such 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, 2007, and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated February 20, 2008, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph regarding the adoption of a new accounting standard for income taxes. In our opinion, the information set forth in the accompanying consolidated condensed statement of financial position as of December 31, 2007 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP
Los Angeles, California
April 24, 2008

NORTHROP GRUMMAN CORPORATION

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

OVERVIEW

The following discussion should be read along with the unaudited consolidated condensed financial statements included in this Form 10-Q, as well as the company's 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission, which provides a more thorough discussion of the company's products and services, industry outlook, and business trends. See discussion of consolidated results starting on page I-24 and discussion of results by segment starting on page I-26.

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

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

Notable Events – Notable events or activity during the three months ended March 31, 2008, affecting the company's consolidated financial results included the following:

- Contract award of $1.5 billion by U.S. Air force to replace its aerial refueling tanker fleet currently under protest – see page I-33.
- Pre-tax charge of $326 million associated with the LHD-8 and other ships – see page I-32 and Note 6 to the Consolidated Condensed Financial Statements in Part I, Item 1.
- Conversion of 3 million shares of mandatorily redeemable Series B Convertible preferred stock to 5.5 million shares of common stock – see Note 4 to the Consolidated Condensed Financial Statements in Part I, Item 1.
- Classification of Electro-Optical Systems as discontinued operations – see Note 5 to the Consolidated Condensed Financial Statements in Part I, Item 1.

CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED OPERATING RESULTS

Selected financial highlights are presented in the table below.

$ in millions, except per share	Three Months Ended March 31 2008	2007
Sales and service revenues	**$ 7,724**	$ 7,314
Cost of sales and service revenues	**7,260**	6,624
Operating income	**464**	690
Interest expense, net	**(70)**	(82)
Federal and foreign income taxes	**146**	206
Diluted earnings per share from continuing operations	**.76**	1.12
Net cash provided by operating activities	**194**	400

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

$ in millions	Three Months Ended March 31 2008	2007
Product sales	**$ 4,394**	$ 4,140
Service revenues	**3,330**	3,174
Sales and service revenues	**$ 7,724**	$ 7,314

Sales and service revenues for the three months ended March 31, 2008, increased $410 million, or 6 percent, as compared with the same period in 2007, reflecting higher sales in all operating segments except Technical Services. Sales and service revenues were impacted by a sales step back of $134 million on the LHD-8 program. See the Segment Operating Results section below for further information.

Cost of Sales and Service Revenues
Cost of sales and service revenues is comprised of the following:

$ in millions	Three Months Ended March 31 2008	2007
Cost of product sales	**$ 3,729**	$ 3,168
% of product sales	***84.9%***	*76.5%*
Cost of service revenues	**2,793**	2,749
% of service revenues	***83.9%***	*86.6%*
General and administrative expenses	**738**	707
% of total sales & service revenues	***9.6%***	*9.7%*
Cost of sales and service revenues	**$ 7,260**	$ 6,624

Cost of Product Sales and Service Revenues – The increase in cost of product sales as a percentage of product sales for the three months ended March 31, 2008, as compared to the same period in 2007 is primarily due to a $326 million pre-tax charge at Shipbuilding for cost growth on the LHD-8 contract, related program risk and schedule impacts on other ships, and impairment of purchased intangibles at the Gulf Coast shipyard. Cost of service revenues as a percentage of service revenues for the three months ended March 31, 2008, as compared to the same period in 2007, declined primarily at Technical Services, due to contract mix. See the Segment Operating Results section below for further information.

General and Administrative Expenses – In accordance with industry practice and the regulations that govern the cost accounting requirements for government contracts, most general corporate expenses incurred at both the segment and corporate locations are considered allowable and allocable costs on government contracts and such costs, for most components of the company, are allocated to contracts in progress on a systematic basis, and contract performance factors include this cost component as an element of cost. General and administrative expenses primarily relate to segment operations and remained essentially unchanged as a percentage of total sales and service revenues.

Operating Income

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

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

	Three Months Ended March 31	
$ in millions	**2008**	2007
Segment operating income	**$ 458**	$ 692
Unallocated expenses	**(32)**	(32)
Net pension adjustment	**59**	33
Royalty income adjustment	**(21)**	(3)
Total operating income	**$ 464**	$ 690

Segment Operating Income – Segment operating income for the three months ended March 31, 2008, decreased $234 million, or 34 percent, as compared to the same period in 2007. Total segment operating income was 5.9 percent and 9.5 percent of total sales and service revenues for the three months ended March 31, 2008, and 2007, respectively. The decrease in operating income includes a $326 million pre-tax charge stemming from cost growth, schedule delays and impairment of purchased intangibles related to the Shipbuilding segment. See the Segment Operating Results section below and Note 6 to the Consolidated Condensed Financial Statements in Part I, Item 1 for further information.

Unallocated Expenses – Unallocated expenses include the portion of corporate expenses not considered allowable or allocable under applicable U.S. Government Cost Accounting Standards (CAS) regulations and the Federal Acquisition Regulation, and therefore not allocated to the segments, such as management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses. Unallocated expenses for the three months ended March 31, 2008, was principally unchanged as compared with the same period in 2007.

Net Pension Adjustment – Net pension adjustment reflects the difference between pension expense determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with U.S. Government Cost Accounting Standards (CAS). For the three months ended March 31, 2008, and 2007, pension expense determined in accordance with GAAP was $56 million and $87 million, respectively, and pension expense determined in accordance with CAS amounted to $115 million and $120 million, respectively. The reduction in GAAP pension expense is primarily due to a higher return on plan assets and a higher discount rate.

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

Interest Expense, Net
Interest expense, net for the three months ended March 31, 2008, decreased $12 million, as compared with the same period in 2007, primarily due to the conversion of the majority of the mandatorily redeemable preferred stock. See Note 4 to the Consolidated Condensed Financial Statements in Part I, Item 1.

Federal and Foreign Income Taxes
The company's effective tax rate on earnings from continuing operations for the three months ended March 31, 2008, was 35.7 percent compared with 34.3 percent for the same period in 2007.

Discontinued Operations
Discontinued operations for the three months ended March 31, 2008 and 2007, represents the net operating results of the Electro-Optical Systems business formerly reported in the Electronics segment. See Note 5 to the Consolidated Condensed Financial Statements in Part I, Item I.

Diluted Earnings Per Share
Diluted earnings per share from continuing operations for the three months ended March 31, 2008, were $0.76 per share, as compared with $1.12 per share in the same period in 2007. Earnings per share are based on weighted average diluted shares outstanding of 349.3 million for the three months ended March 31, 2008, and 358.3 million for the same period in 2007. Diluted earnings per share from continuing operations and the weighted average diluted shares outstanding in 2008 include the dilutive effects of the mandatorily redeemable Series B convertible preferred stock. A substantial portion of the mandatorily redeemable Series B convertible preferred stock was converted to common stock in the first quarter of 2008, with the remainder converted or redeemed in April 2008. See Notes 4 and 7 to the Consolidated Condensed Financial Statements in Part I, Item 1.

Net Cash Provided by Operating Activities
For the three months ended March 31, 2008, net cash provided by operating activities was $194 million compared to $400 million for the same period in 2007. The decrease of $206 million, or 52 percent, was due to an increase in accounts receivable due to timing of billing and collection and as the result of the transition to an internal accounting software system common to other parts of the company.

SEGMENT OPERATING RESULTS

Basis of Presentation
In January 2008, the Newport News and Ship Systems businesses were realigned into a single segment called Northrop Grumman Shipbuilding to enable the company to more effectively utilize its shipbuilding assets and deploy its shipbuilders, processes, technologies, production facilities and planned capital investments to meet customer needs. This realignment had no impact on the company's consolidated financial position, results of operations, cash flows, or segment reporting. Previously, these businesses were separate operating segments which were aggregated into a single segment for financial reporting purposes.

In addition, certain Electronics businesses were transferred to Mission Systems effective January 2008. The transfer of these businesses did not have a material effect on the company's consolidated financial position, results of operations, or cash flows.

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

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

In January 2008, the company announced the transfer of certain programs and assets from the Mission Systems segment to the Space Technology segment, effective July 1, 2008. This transfer will allow Mission Systems to focus on the rapidly growing command, control, communications, computers, intelligence, surveillance, and reconnaissance business, and the missiles business will be an integrated element of the company's Aerospace business growth strategy. This subsequent realignment was not reflected in any of the accompanying financial information.

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

	Three Months Ended March 31	
$ in millions	**2008**	2007
Sales and Service Revenues		
Information & Services		
Mission Systems	**$ 1,545**	$ 1,395
Information Technology	**1,085**	1,038
Technical Services	**505**	520
Total Information & Services	**3,135**	2,953
Aerospace		
Integrated Systems	**1,340**	1,281
Space Technology	**775**	754
Total Aerospace	**2,115**	2,035
Electronics	**1,555**	1,528
Shipbuilding	**1,264**	1,156
Intersegment eliminations	**(345)**	(358)
Sales and service revenues	**$ 7,724**	$ 7,314
Segment Operating Income		
Information & Services		
Mission Systems	**$ 145**	$ 117
Information Technology	**89**	86
Technical Services	**26**	28
Total Information & Services	**260**	231
Aerospace		
Integrated Systems	**170**	160
Space Technology	**65**	59
Total Aerospace	**235**	219
Electronics	**209**	192
Shipbuilding	**(218)**	79
Intersegment eliminations	**(28)**	(29)
Segment operating income	**$ 458**	$ 692

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

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

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

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

Contract Descriptions
For convenience, a brief description of certain programs discussed in this Form 10-Q is included in the "Glossary of Programs" beginning on page I-36.

INFORMATION & SERVICES

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

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

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

	Three Months Ended March 31					
	2008			2007		
		Operating			Operating	
$ in millions	**Sales**	**Income**	**% of Sales**	Sales	Income	% of Sales
Mission Systems	**$ 1,545**	**$ 145**	**9.4%**	$ 1,395	$ 117	8.4%
Information Technology	**1,085**	**89**	**8.2%**	1,038	86	8.3%
Technical Services	**505**	**26**	**5.1%**	520	28	5.4%
Information & Services	**$ 3,135**	**$ 260**	**8.3%**	$ 2,953	$ 231	7.8%

Sales and Service Revenues
Mission Systems – Revenue for the three months ended March 31, 2008, increased $150 million, or 11 percent, as compared with the same period in 2007. The increase was primarily due to $67 million in higher sales in C3, $61 million in higher sales in ISR, and $31 million in higher sales in Missile Systems. The increase in C3 is due to higher volume in several programs, including Command Post Platform (CPP), Force XXI Battle Brigade and Below (FBCB2) Installation Kits (I-Kits), Counter-Rocket Artillery Mortar (CRAM), and Battlefield Airborne Communication Node (BACN), partially offset by lower deliveries and development activities in the F-22 and F-35 programs. The increase in ISR is primarily due to ramp-up in the Navstar Global Positioning System (GPS) Operational Control Segment (OCX) program and a restricted program awarded in 2007. The increase in Missile Systems is primarily due to increased activity resulting from higher customer funding in the Kinetic Energy Interceptors (KEI) program and higher subcontract and material costs on the Joint National Integration Center Research & Development (JRDC) program.

Information Technology – Information Technology revenue for the three months ended March 31, 2008, increased $47 million, or 5 percent, as compared with the same period in 2007. The increase was primarily due to $26 million in higher sales in CS&L, and $22 million in higher sales in Defense. The increase in CS&L is attributable to higher volume associated with the New York City Wireless program and the Virginia IT outsourcing program. The increase in Defense is due to higher volume associated with the Network Centric Solutions program.

Technical Services – Revenue for the three months ended March 31, 2008, decreased $15 million, or 3 percent, as compared with the same period in 2007. The decrease was primarily due to lower sales volume in SSG driven by the completion of the Western Range Operations program in 2007, and decreased customer spending on the Joint Base Operations Support (JBOSC) program.

Segment Operating Income
Mission Systems – Operating income at Mission Systems for the three months ended March 31, 2008, increased $28 million, or 24 percent, as compared with the same period in 2007. The increase is comprised of $13 million due to the higher sales volume described above, and $15 million due to the improvement in margin rate from 8.4 percent in the first quarter of 2007 to 9.4 percent in the 2008 quarter. Improvements in the FBCB2 Systems Engineering & Integration (SE&I), the National Team Ballistic Missile Command and Control (BMC2) and the CPP programs were the primary contributors to the rate improvement in the quarter.

Information Technology – Operating income at Information Technology for the three months ended March 31, 2008, increased $3 million, or 3 percent, as compared with the same period in 2007 primarily due to the higher sales volume described above.

Technical Services – Operating income at Technical Services for the three months ended March 31, 2008, decreased $2 million, or 7 percent, as compared with the same period in 2007 due to the reduced sales volume described above and contract mix.

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AEROSPACE

Business Descriptions

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

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

	Three Months Ended March 31					
	2008			2007		
		Operating			Operating	
$ in millions	**Sales**	**Income**	**% of Sales**	Sales	Income	% of Sales
Integrated Systems	**$ 1,340**	**$ 170**	**12.7%**	$ 1,281	$ 160	12.5%
Space Technology	**775**	**65**	**8.4%**	754	59	7.8%
Aerospace	**$ 2,115**	**$ 235**	**11.1%**	$ 2,035	$ 219	10.8%

Sales and Service Revenues

Integrated Systems – Revenue for the three months ended March 31, 2008, increased $59 million, or 5 percent, as compared with the same period in 2007. The increase was primarily due to $48 million in higher sales in ISWR and $13 million in higher sales in ISER. The increase in ISWR is due to higher volume associated with restricted programs, the Global Hawk High Altitude Long Endurance Systems (HALE) program, and the Unmanned Combat Air System Carrier Demonstration (UCAS-D) program, partially offset by lower volume in the F-35 and Multi-Platform Radar Technology Insertion Program (MP-RTIP) programs. The increase in ISER is due to higher volume associated with Air Mobility Tanker program, partially offset by lower volume in the E-10A program.

Space Technology – Revenue for the three months ended March 31, 2008, increased $21 million, or 3 percent, as compared with the same period in 2007. The increase was primarily due to $54 million in higher sales in National Systems and $16 million in higher sales in Civil Systems, partially offset by $61 million in lower sales in Military Systems. The increase in National Systems is due to higher volume associated with restricted programs. The increase in Civil Systems is primarily due to higher volume associated with the James Webb Space Telescope (JWST) program. The decrease in Military Systems is due to lower sales volume associated with the Advanced Extremely High Frequency (AEHF), Transformational Satellite Communications System (TSAT), and Space Tracking and Surveillance System (STSS) programs.

Segment Operating Income

Integrated Systems – Operating income at Integrated Systems for the three months ended March 31, 2008, increased $10 million, or 6 percent, as compared with the same period in 2007. The increase is comprised of $7 million due to the higher sales volume described above, and $3 million due to the improvement in margin rate from 12.5 percent in the first quarter of 2007 to 12.7 percent in the 2008 quarter. Improvements in restricted programs, EA-18G, and the B-2 Stealth Bomber programs were the primary contributors to the rate improvement in the quarter.

Space Technology – Operating income at Space Technology for the three months ended March 31, 2008, increased $6 million, or 10 percent, as compared with the same period in 2007. The increase is comprised of $2 million due to the higher sales volume described above, and $4 million due to the improvement in margin rate from 7.8 percent in the first quarter of 2007 to 8.4 percent in the 2008 quarter. Improvements in the Airborne Laser (ABL) and restricted programs were the primary contributors to the rate improvement in the quarter.

ELECTRONICS

Business Description

Electronics is a leading designer, developer, manufacturer and integrator of a variety of advanced electronic and maritime systems for national security and select non-defense applications. Electronics provides systems to U.S. and international customers for such applications as airborne surveillance, aircraft fire control, precision targeting, electronic warfare, automatic test equipment, inertial navigation, integrated avionics, space sensing, intelligence processing, air traffic control, air and missile defense, homeland defense, communications, mail processing, biochemical detection, ship bridge control, and shipboard components. Products and services are grouped into the following business areas: Aerospace Systems; Government Systems; Naval & Marine Systems (NMS); Defensive Systems; Land Forces; Navigation Systems; Space Sensors & ISR Systems; and Defense Other.

	Three Months Ended March 31					
	2008			2007		
$ in millions	**Sales**	**Operating Income**	**% of Sales**	Sales	Operating Income	% of Sales
Electronics	**$ 1,555**	**$ 209**	**13.4%**	$ 1,528	$ 192	12.6%

Sales and Service Revenues

Electronics revenue for the three months ended March 31, 2008, increased $27 million, or 2 percent, as compared with the same period in 2007. The increase was primarily due to $89 million in higher sales in Land Forces and $35 million in higher sales in Navigation Systems, partially offset by $47 million in lower sales in Naval & Marine Systems and $22 million in lower sales in Government Systems. The increase in Land Forces is due to higher volume associated with Vehicular Intercommunications Systems (VIS) and Lightweight Laser Designator Rangefinder (LLDR) programs. The increase in Navigation Systems is due to higher volume associated with Inertial Navigation programs. The decrease in Naval & Marine Systems is due to the lower volume associated with restricted programs and contract closeouts in 2007. The decrease in Government Systems is due to the lower volume associated with the Automated Flats Sorting Machine (AFSM) automated induction program.

Segment Operating Income

Operating income at Electronics for the three months ended March 31, 2008, increased $17 million, or 9 percent, as compared with the same period in 2007. The increase is comprised of $3 million due to the higher sales volume described above, and $14 million due to the improvement in margin rate from 12.6 percent in the first quarter of 2007 to 13.4 percent in the 2008 quarter. Improvements in the Electro-optical & Infrared Countermeasures, and Land Forces programs and higher royalty income at Navigation Systems were the primary contributors to the rate improvement in the quarter.

SHIPBUILDING

Business Description

Shipbuilding is the nation's sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines for the U.S. Navy. Shipbuilding is also one of the nation's leading full service systems providers for the design, engineering, construction, and life cycle support of major surface ships for the U.S. Navy, U.S. Coast Guard, international navies, and for commercial vessels. Products and services are grouped into the following business areas: Aircraft

Carriers; Expeditionary Warfare; Surface Combatants; Submarines; Coast Guard & Coastal Defense (CG&CD); Fleet Support; Services; and Commercial & Other.

	Three Months Ended March 31					
	2008			2007		
		Operating			Operating	
$ in millions	**Sales**	**Income**	**% of Sales**	Sales	Income	% of Sales
Shipbuilding	**$ 1,264**	**$ (218)**	**—**	$ 1,156	$ 79	6.8%

Sales and Service Revenues
Revenue for the three months ended March 31, 2008, increased $108 million, or 9 percent, as compared with the same period in 2007. The increase was primarily due to $77 million in higher sales in Surface Combatants, $48 million in higher sales in Fleet Support and $41 million in higher sales in Services, partially offset by $107 million of lower sales in Expeditionary Warfare. The increase in Fleet Support is primarily due to the consolidation of AMSEC. The increase in Surface Combatants is primarily due to higher sales volume in the DDG program. The increase in Services is due to higher sales on various programs. The decrease in Expeditionary Warfare is primarily due to a sales step back of $134 million on the LHD-8 program (see Note 6 to the Consolidated Condensed Financial Statements in Part 1, Item 1), partially offset by higher sales volume in the LPD program. During the three months ended March 31, 2007, all programs at the Pascagoula, Mississippi facility were impacted by a labor strike.

Segment Operating Margin
Operating income at Shipbuilding for the three months ended March 31, 2008, decreased $297 million, or 376 percent, to a loss of $218 million as compared with income of $79 million for the same period in 2007. The decrease is primarily due to a $326 million pre-tax charge on LHD-8 and other programs including $19 million associated with the impairment of related purchased intangible assets. The charge relates to costs for additional vessel labor hours, materials and level-of-effort support resulting from a comprehensive review of the program that revealed a need for substantial rework on LHD-8 ($272 million), and additional costs for program risks and schedule impacts on other ships under construction as a result of resource impacts caused by the LHD-8 delay ($35 million). (See Note 6 to the Consolidated Condensed Financial Statements in Part 1, Item 1 for further discussion.) Absent the LHD-8 charge, operating income for the three months ended March 31, 2008, was $108 million, or 7.7 percent of segment sales adjusted for the LHD-8 sales step back discussed above. Of the total increase of $29 million for the quarter compared with the same period in 2007, $18 million was due to the volume increases described above, and $11 million was due to margin improvements in various programs including Submarines, Fleet Support and Coast Guard & Coastal Defense, partially offset by margin declines in Surface Combatants and Services.

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

BACKLOG

Definition
Total backlog at March 31, 2008, was approximately $68 billion. Total backlog includes both funded backlog (unfilled orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded IDIQ orders. For multi-year services contracts with non-federal government customers having no stated contract values, backlog includes only the amounts committed by the customer. Backlog is converted into sales as work is performed or deliveries are made.

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

	March 31, 2008			December 31, 2007		
$ in millions	**Funded**	**Unfunded**	**Total Backlog**	Funded	Unfunded	Total Backlog
Information & Services						
Mission Systems	**$ 3,847**	**$ 8,751**	**$ 12,598**	$ 3,399	$ 8,985	$ 12,384
Information Technology	**2,606**	**2,024**	**4,630**	2,581	2,268	4,849
Technical Services	**1,655**	**2,898**	**4,553**	1,471	3,193	4,664
Total Information & Services	**8,108**	**13,673**	**21,781**	7,451	14,446	21,897
Aerospace						
Integrated Systems	**5,342**	**6,603**	**11,945**	4,204	4,525	8,729
Space Technology	**1,173**	**8,066**	**9,239**	1,260	8,266	9,526
Total Aerospace	**6,515**	**14,669**	**21,184**	5,464	12,791	18,255
Electronics	**8,518**	**2,200**	**10,718**	7,887	2,047	9,934
Shipbuilding	**12,075**	**2,252**	**14,327**	10,348	3,230	13,578
Total backlog	**$ 35,216**	**$ 32,794**	**$ 68,010**	$ 31,150	$ 32,514	$ 63,664

New Awards
The estimated value of contract awards included in backlog during the three months ended March 31, 2008, is approximately $12.1 billion. Significant new awards during this period include $1.5 billion for the Air Mobility tanker program, $1.4 billion for the Zumwalt-class destroyer, $596 million for the CVN 78 bridge contract, $208 million for the VIS IDIQ program, $195 million for the LAIRCM IDIQ program, and $182 million for the ICBM program. In addition, the company was awarded approximately $2.6 billion for restricted programs during this period.

On February 29, 2008, the company was awarded a contract by the U.S. Air Force to replace its aerial refueling tanker fleet. Included in backlog is approximately $1.5 billion for this contract to provide four System Design and Development aircraft of which $61 million has been funded. The other bidder for the contract subsequently protested the decision by the U.S. Air Force to award the contract to the company. The U.S. Air Force issued a stop work order to the company pending the resolution of this matter. The Government Accountability Office is currently reviewing the protest and is expected to reach its decision in June 2008.

The estimated value of contract awards during the three months ended March 31, 2007, is approximately $7.3 billion. Significant new awards during this period include $1 billion for LPD 25, $875 million for the Flat Sequencing System program, $235 million for the Intercontinental Ballistic Missile program, $133 million for the Euro Hawk program and $118 million for the Large Aircraft Infrared Counter-measures Indefinite Delivery and Indefinite Quantity program. In addition, the company was awarded approximately $688 million for restricted programs during this period.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

	Three Months Ended March 31	
$ in millions	**2008**	2007
Net earnings	**$ 264**	$ 387
Non-cash items(1)	**222**	148
Retiree benefit expense in excess of funding	**31**	47
Change in trade working capital	**(450)**	(399)
Other	**130**	231
Cash used in discontinued operations	**(3)**	(14)
Cash provided by operating activities	**$ 194**	$ 400

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

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

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

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

	Three Months Ended March 31	
$ in millions	**2008**	2007
Cash provided by operating activities	**$ 194**	$ 400
Less:		
Capital expenditures	**(143)**	(158)
Outsourcing contract & related software costs	**(35)**	(30)
Free cash flow from operations	**$ 16**	$ 212

Cash Flows
The following is a discussion of the company's major operating, investing and financing activities for the three months ended March 31, 2008 and 2007, respectively, as classified on the consolidated condensed statements of cash flows located in Part I, Item 1.

Operating Activities – Net cash provided by operating activities for the three months ended March 31, 2008, was $194 million compared to net cash provided of $400 million for the same period of 2007. The decrease was primarily due to increased accounts receivable due to timing of billing and collection as the result of the transition to an internal accounting software system common to other parts of the company.

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

Investing Activities – Net cash used in investing activities for the three months ended March 31, 2008, was $148 million compared to $747 million in the same period of 2007. The decrease is primarily due to the acquisition of Essex for $578 million in 2007.

Financing Activities – Net cash used in financing activities for the three months ended March 31, 2008, was $580 million compared to $306 million in the same period of 2007. The increase is primarily due to $197 million in lower net borrowings under lines of credit and $87 million less in proceeds from stock option exercises. See Note 7 to the Consolidated Condensed

Financial Statements in Part I, Item 1 for a discussion concerning the company's common stock repurchases.

NEW ACCOUNTING STANDARDS

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

FORWARD-LOOKING INFORMATION

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

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

- future revenues;
- expected program performance and cash flows;
- compliance with technical, operational and quality requirements for development and production programs;
- returns on pension plan assets and variability of pension actuarial and related assumptions;
- the outcome of litigation, claims, appeals, bid protests, and investigations;
- hurricane-related insurance recoveries;
- environmental remediation;
- acquisitions and divestitures of businesses;
- joint ventures and other business arrangements;
- access to capital;
- performance issues with key suppliers and subcontractors;
- product performance and the successful execution of internal plans;
- successful negotiation of contracts with labor unions;

allowability and allocability of costs under U.S. Government contracts;

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- effective tax rates and timing and amounts of tax payments;
- the results of any audit or appeal process with the Internal Revenue Service;

- the availability and retention of skilled labor; and
- anticipated costs of capital investments.

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

GLOSSARY OF PROGRAMS

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

Program Name	Program Description
Advanced Extremely High Frequency (AEHF)	Provide the communication payload for the nation's next generation military strategic and tactical relay systems that will deliver survivable, protected communications to U.S. forces and selected allies worldwide.
Airborne Laser (ABL)	Design and develop the system's Chemical Oxygen Iodine Laser (COIL) and the Beacon Illuminator Laser (BILL) for Missile Defense Agency's Airborne Laser, providing a capability to destroy boost-phase missiles at very long range.
Air Mobility Tanker	Program to replace the U.S. Air Force aerial refueling tanker fleet.
Automated Flats Sorting Machine (AFSM) – automated induction (ai) Follow-On	Automated induction hardware deliveries to the U.S. Postal Service. Ai allows for the automated prep of flat mail into automation compatible trays and conveyed to the AFSM-100 in-feed line for sorting.
B-2 Stealth Bomber	Maintain strategic, long-range multi-role bomber with war-fighting capability that combines long range, large payload, all-aspect stealth, and near-precision weapons in one aircraft.
Battlefield Airborne Communication Node (BACN)	USAF program will integrate an airborne communications relay and information server that will provide warfighters and homeland security units with critical battle information.
National Team Battle Management Command and Control (BMC2)	Provide technical talent and corporate reach back to the industry team tasked to develop, field, and sustain a global C2BM system for ballistic missile defense.
Coast Guard's Deepwater Program Command Post Platform (CPP)	Design, develop, construct and deploy surface assets to recapitalize the Coast Guard. Provide a family of vehicles that host multiple battle command and support software suites as well as communications equipment that interface with digitized vehicles.
Compact Sequence Sorters	Build letter sequencing machines for a large European Postal customer to further automate the mail stream.

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Program Name	Program Description
Counter Rocket Artillery Mortar (CRAM)	Provide system engineering and installation support for Counter Rocket, Artillery and Mortar Systems to protect troops at Forward Operating base for Operation Iraqi Freedom.
DDG 51	Build Aegis guided missile destroyer, equipped for conducting anti-air, anti-submarine, anti-surface and strike operations.
E-10A	Mission Execution Program (MEP) to continue to mature the technologies of the E-10A Battle Management/Command and Control capabilities.
Euro Hawk	The European armed forces variant of the Global Hawk High-Altitude, Long-Endurance Systems.
F-35 Development (Joint Strike Fighter)	Design, integration, and/or development of the center fuselage and weapons bay, communications, navigations, identification subsystem, systems engineering, and mission systems software as well as provide ground and flight test support, modeling, simulation activities, and training courseware.
F-22	Joint venture with Raytheon to design, develop and produce the F-22 radar system. Northrop Grumman is responsible for the overall design of the AN/APG-77 and AN/APG-77(V) 1 radar systems, including the control and signal processing software and responsibility for the AESA radar systems integration and test activities. In addition, Northrop Grumman is responsible for overall design and integration of the F-22 Communication, Navigation, and Identification (CNI) system.
Force XXI Battle Brigade and Below (FBCB2)	Install in Army vehicles a system of computer hardware and software that forms a wireless, tactical Internet for near-real-time situational awareness and command and control on the battlefield.
Ford Class	Design and construction for the new class of Aircraft Carriers.
Flats Sequencing System / Postal Automation	Build systems for the U.S. Postal Service designed to further automate the flats mail stream, which includes large envelopes, catalogs and magazines.
Global Hawk High-Altitude, Long-Endurance Systems (HALE)	Provide the Global Hawk HALE unmanned aerial system for use in the global war on terror and has a central role in Intelligence, Reconnaissance, and Surveillance supporting operations in Afghanistan and Iraq.
Inertial Navigation Programs	Consists of a wide variety of opportunities across land, sea and space that address the customers' needs for precise knowledge of position, velocity, attitude, and heading. These applications include platforms, such as the F-16, satellites and ground vehicles as well as for sensors such as radar, MP-RTIP, and EO/IR pods. Many inertial applications require integration with GPS to provide a very high level of precision and long term stability.
Intercontinental Ballistic Missile (ICBM)	Maintain readiness of the nation's ICBM weapon system.

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Program Name	Program Description
Joint National Integration Center Research & Development (JRDC)	Support the development and application of modeling and simulation, wargaming, test and analytic tools for air and missile defense.
Joint Base Operations Support	Provides all infrastructure support needed for launch and base operations at the NASA Spaceport.
James Webb Space Telescope (JWST)	Design, develop, integrate and test a space-based infrared telescope satellite to observe the formation of the first stars and galaxies in the universe.
Kinetic Energy Interceptor (KEI)	Develop mobile missile-defense system with the unique capability to destroy a hostile missile during its boost, ascent or midcourse phase of flight.
Large Aircraft Infrared Counter-measures Indefinite Delivery and Indefinite Quantity (LAIRCM IDIQ)	Infrared countermeasures systems for C-17 and C-130 aircraft. The IDIQ contract will further allow for the purchase of LAIRCM hardware for foreign military sales and other government agencies.
LHD	Build multipurpose amphibious assault ships.
Lightweight Laser Designator Rangefinder (LLDR)	Provide LLDRs to the U.S. Army for use in targeting enemy positions in day/night/obscurant conditions which, in turn, provides information to other members on the battlefield.
Mark VIIE	The next generation electro-optical day/night hand held target location system used by Ground Forces.
MESA Korea	Consists of a 4 lot Multirole Electronically Scanned Array (MESA) radar/Identification Friend or Foe subsystem delivery with limited non-recurring engineering. The program also includes associated spares, support equipment and installation & check out activities, with direct and indirect offset projects. Northrop Grumman's customer is the Boeing Company, with ultimate product delivery to the Republic of Korea Air Force.
Multi-Platform Radar Technology Insertion Program (MP-RTIP)	Design, develop, fabricate and test modular, scalable 2-dimensional active electronically scanned array (2D-AESA) radars for integration on the E-10A and Global Hawk Airborne platforms. Also provides enhanced Wide Area Surveillance system capabilities.
Navstar Global Positioning System (GPS) Operational Control Segment (OCX)	Navstar Global Positioning System (GPS) Operational Control Segment (OCX) Operational control system for existing and future GPS constellation. Includes all satellite C2, mission planning, constellation management, external interfaces, monitoring stations, and ground antennas. Phase A effort includes effort to accomplish a System Requirements Review (SRR), System Design Review (SDR), and development of a Mission Capabilities Engineering Model (MCEM) prototype.
New York City Wireless	Provide New York City's broadband public-safety wireless network.

Program Name	Program Description
Network Centric Solution	Provide Network-Centric Information Technology, Networking, Telephony and Security, Voice, Video and Data Communications Commercial-off-the-Shelf products, system solutions, hardware and software.
Space Tracking and Surveillance System (STSS)	Develop a critical system for the nation's missile defense architecture employing low-earth orbit satellites with onboard infrared sensors to detect, track and discriminate ballistic missiles. The program includes two flight demonstration satellites with subsequent development and production blocks of satellites.
Transformational Satellite Communication System-Risk Reduction and System Definition (TSAT RR&SD)	Design, develop, brassboard and demonstrate key technologies to reduce risk in the TSAT space element and perform additional risk mitigation activities.
USS Carl Vinson	Refueling and complex overhaul of the nuclear-powered aircraft carrier *USS Carl Vinson* (CVN 70).
Virginia IT outsourcing	Provide high-level IT consulting and services to Virginia state and local agencies including data center, help desk, desktop, network, applications and cross-functional services.
Vehicular Intercommunications Systems (VIS)	Provide clear and noise-free communications between crew members inside combat vehicles and externally over as many as six combat net radios for the U.S. Army. The active noise-reduction features of VIS provide significant improvement in speech intelligibility, hearing protection, and vehicle crew performance.
Wedgetail	Joint program with Boeing to supply MESA radar antenna for AEW&C aircraft.
Western Range Operations, Communications & Information	Provide the Air Force Western Range with operations and maintenance services at Vandenberg AFB.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

Foreign Currency – The company enters into foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies. At March 31, 2008 and December 31, 2007, the amount of foreign currency forward contracts outstanding was not material. Market risk exposure relating to foreign currency exchange transactions is immaterial to the consolidated financial statements.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The company's principal executive officer (Chairman and Chief Executive Officer) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures as of March 31, 2008, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act of 1934 (15 USC § 78a et seq) is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the company in the reports that it files or submits is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended March 31, 2008, no change occurred in the company's internal control over financial reporting that materially affected, or is likely to materially affect, the company's internal control over financial reporting.

NORTHROP GRUMMAN CORPORATION

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

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

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

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

Other Matters

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

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

Item 1A. Risk Factors

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

NORTHROP GRUMMAN CORPORATION

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

Purchases of Equity Securities – The table below summarizes the company's repurchases of common stock during the three months ended March 31, 2008.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Numbers of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2008, through January 31, 2008	703,500	$ 79.53	703,500	$ 2.4 billion
February 1, 2008, through February 29, 2008	3,699,089	79.49	3,699,089	$ 2.1 billion
March 1, 2008, through March 31, 2008	3,179,612	78.62	3,179,612	$ 1.9 billion
Total	**7,582,201**	$ 79.13	**7,582,201**	$ 1.9 billion

(1) On December 19, 2007, the company's board of directors authorized a share repurchase program of up to $2.5 billion of its outstanding common stock. As of March 31, 2008, the company has $1.9 billion authorized for share repurchases.

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

Item 3. Defaults Upon Senior Securities

No information is required in response to this item.

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

No information is required in response to this item.

Item 5. Other Information

No information is required in response to this item.

NORTHROP GRUMMAN CORPORATION

Item 6. Exhibits

10(1)	Separation Agreement and General Release between James R. O'Neill and Northrop Grumman Systems Corporation effective March 10, 2008 (incorporated by reference to Exhibit 10.1 to Form 8-K/A dated March 10, 2008 and filed March 14, 2008)
*10(2)	Northrop Grumman Corporation Special Officer Retiree Medical Plan (as Amended and Restated effective January 1, 2008)
10(3)	Compensatory Arrangements of Certain Officers (Named Executive Officers) for 2007 and 2008 (incorporated by reference to Form 8-K dated and filed February 26, 2008)
10(4)	Northrop Grumman 2001 Long-Term Incentive Plan (As amended September 17, 2003) (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2003, filed November 6, 2003), as amended by First Amendment to the Northrop Grumman 2001 Long-Term Incentive Stock Plan dated December 19, 2007 (incorporated by reference to Exhibit 10(i) to Form 10-K for the year ended December 31, 2007, filed February 20, 2008) *(i) Form of Agreement for 2008 Stock Options (officer) *(ii) Form of Agreement for 2008 Restricted Performance Stock Rights
*15	Letter from Independent Registered Public Accounting Firm
*31.1	Rule 13a-15(e)/15d-15(e) Certification of Ronald D. Sugar (Section 302 of the Sarbanes-Oxley Act of 2002)
*31.2	Rule 13a-15(e)/15d-15(e) Certification of James F. Palmer (Section 302 of the Sarbanes-Oxley Act of 2002)
**32.1	Certification of Ronald D. Sugar pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
**32.2	Certification of James F. Palmer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
*	Filed with this Report
**	Furnished with this Report

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: April 24, 2008

By:
/s/ Kenneth N. Heintz

Kenneth N. Heintz
Corporate Vice President, Controller and
Chief Accounting Officer
(Principal Accounting Officer)

NORTHROP GRUMMAN CORPORATION
SPECIAL OFFICER RETIREE MEDICAL PLAN
(Amended and Restated Effective January 1, 2008)

ARTICLE 1 INTRODUCTION

1.01 Purpose. The purpose of the Northrop Grumman Corporation Special Officer Retiree Medical Plan ("Plan") is to provide lifetime retiree medical and life insurance benefits to eligible elected officers of Northrop Grumman Corporation ("the Company") and their eligible dependents as described in the Plan. The Plan provides for the continuation of welfare benefits to a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 29 CFR section 2520.104-24 and Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974 ("ERISA").

1.02 Substantive Benefits. This document describes the standard eligibility provisions and terms of coverage under the Plan. The actual medical benefit coverage will be provided pursuant to the terms of the Northrop Grumman Executive Medical Plan ("Executive Medical Plan") as amended from time to time and the insurance contract or contracts issued by an insurance carrier or carriers selected by the Company. The actual life insurance coverage will be provided through an insurance contract or contracts issued by an insurance carrier or carriers selected by the Company.

ARTICLE 2 DEFINITIONS

2.01 Board. The Company's Board of Directors.

2.02 Committee. The Compensation and Management Development Committee of the Board.

2.03 Continuation Coverage Continued medical coverage under the Plan after a Qualifying Event has occurred. Such medical coverage is identical to the medical coverage as provided under the Plan to similarly situated persons with respect to whom a Qualifying Event has not occurred.

2.04 Continuation Coverage Election Period.The period beginning on the date of the Qualifying Event and ending sixty (60) days after the later of (a) the date the Qualified Beneficiary would lose medical coverage on account of the Qualifying Event, or (b) the date that the Qualified Beneficiary is provided with notice of his or her right to elect Continuation Coverage.

2.05 Grandfathered Participants. Participants who were actively employed by the Company on September 30, 2003.

2.06 Participant. An elected officer of the Company who is designated by the Board or the Committee as eligible to participate in the Plan.

2.07 Prior Plan. The Northrop Grumman Special Officer Retiree Medical Plan as in effect prior to October 1, 2003.

2.08 Qualified Beneficiary. A retired Vested Participant's spouse or dependent who, on the day before a Qualifying Event, has medical coverage under the Plan. In the case of a Qualifying Event described in subsection 2.09(iv) below, Qualified Beneficiary means a retired Vested Participant who had retired on or before the date of substantial elimination of medical coverage and any person who on the day before the Qualifying Event is the spouse or Surviving Spouse of the retired Vested Participant or a covered dependent child of the retired Vested Participant or Surviving Spouse.

2.09 Qualifying Event Any of: (i) the death of a retired Vested Participant, but only with respect to a beneficiary who is not the Surviving Spouse of the retired Vested Participant; (ii) the divorce or legal separation of a retired Vested Participant from his spouse; (iii) a dependent child ceasing to be eligible for medical coverage as a dependent child of a retired Vested Participant under the dependent eligibility provisions of the Executive Medical Plan; or (iv) a proceeding in a case under Title 11 of the United States Code with respect to the Company; provided, however, that any such event will be a Qualifying Event only if it will cause the Qualified Beneficiary an immediate or deferred loss of medical coverage under the Plan. For purposes of this subsection, a loss of medical coverage means to cease to be eligible for medical benefits under the Plan under the same terms and conditions as in effect immediately before the Qualifying Event. A loss of medical coverage will be considered a deferred loss of medical coverage for purposes of this provision if the loss of medical coverage does not occur at the time of the Qualifying Event but occurs before the end of what would be the maximum period of Continuation Coverage under section 8.04 below. In the case of a Qualifying Event described in (iv), a loss of medical coverage includes a substantial elimination of medical coverage with respect to a Qualified Beneficiary within one year before or after the date of commencement of the bankruptcy proceeding.

2.10 Surviving Spouse The individual to whom the retired Vested Participant was legally married under applicable State law both at the time of the retired Vested Participant's retirement and at the time of the retired Vested Participant's death.

2.11 Vested Participant. A Participant with either five years of service as an elected officer of the Company or 30 years of total service with the Company and its affiliates.

ARTICLE 3 ELIGIBILITY

3.01 Eligibility. Eligibility for the Plan is limited to those elected officers of the Company who are designated as eligible to participate in the Plan by the Board or the Committee. The eligible spouse and dependents of a Vested Participant will be eligible for medical benefits under the Plan commencing at the same time the Vested Participant's medical benefits commence. Spouse and dependent eligibility will be determined in accordance with the terms of the Executive Medical Plan. A Vested Participant's eligibility for life insurance coverage will be subject to the terms of the life insurance contract or contracts through which such coverage is provided. The spouse and dependents of a Vested Participant are not eligible for life insurance coverage under the Plan.

3.02 Revocation of Eligibility. The Board or Committee may revoke a non-Vested Participant's Plan eligibility without the Participant's consent. The Board or Committee may revoke a Vested Participant's or Surviving Spouse's Plan eligibility, provided that the Vested Participant or, after the Vested Participant's death, his or her Surviving Spouse, consents to the revocation.

3.03 Automatic Cessation of Eligibility. A Participant who is not a Vested Participant will automatically cease to be a Participant under the Plan upon the earlier of the following: (i) the date the Participant terminates employment with the Company; or (ii) the date the Participant ceases to be an elected officer of the Company. However, the Board or the Committee may make provision for a Participant who ceases to be an elected officer of the Company, but does not terminate employment with the Company, to continue to accrue service credited toward becoming a Vested Participant. The spouse or dependent of a Participant will cease to be eligible for medical benefits under the Plan upon the earlier of the following: (i) the date the Participant ceases to be a Participant under the Plan; or (ii) the date the spouse or dependent ceases to be eligible in accordance with the terms of the Executive Medical Plan.

3.04 Plan Freeze No elected officer whose date of election is effective after March 21, 2007 shall be designated as eligible to participate in the Plan. An elected officer who is a Participant as of March 21, 2007 may continue to earn service toward becoming a Vested Participant after that date in accordance with the terms of the Plan.

ARTICLE 4 COMMENCEMENT OF BENEFITS AND COSTS

4.01 Commencement of Benefits A Vested Participant may elect to commence benefits under the Plan coincident with retirement from the Company under the terms of the supplemental executive retirement plan in which the Vested Participant participates. If the election to commence is not made at the time of retirement, the Vested Participant and his or her dependents cease to be eligible for the Plan. No subsequent election to commence benefits will be allowed.

4.02 Duration of Benefits Subject to the Company's right to amend or terminate the Plan (as limited by subsection 6.01(b)), life insurance coverage will be provided for the life of the Vested Participant and medical coverage will be provided for the life of the Vested Participant and the life of his or her Surviving Spouse, if any. Eligible dependent medical coverage will only be available during the life of the Vested Participant and the life of his or her Surviving Spouse, if any, subject to ARTICLE 8.

4.03 Coverage Provided. Medical coverage will be provided pursuant to the terms of the Executive Medical Plan, as such Executive Medical Plan is modified from time to time for active executives. Life insurance coverage will be provided through an insurance contract or contracts issued by an insurance carrier or carriers selected by the Company.

Life insurance coverage will be in the amount of $450,000 at the Vested Participant's retirement and will be reduced by $50,000 effective as of each January 1 thereafter until the amount reaches $250,000.

4.04 Medicare. A Vested Participant, spouse or Surviving Spouse must enroll in Medicare Parts A and B when first eligible in order to receive benefits under this Plan. If he or she fails to enroll, medical benefit coverage under this Plan will cease upon the date the Vested Participant, spouse or Surviving Spouse first becomes eligible for Medicare Parts A and B.

4.05 Costs of Coverage.

(a) Medical Coverage.

(i) The Vested Participant (or Surviving Spouse, following the death of a Vested Participant) will be responsible for any participant cost items, such as contributions toward the cost of coverage, copayments, and deductibles, as determined by the Company in its discretion and described in the Executive Medical Plan; provided, however, that subject to subsection (a)(ii) below, the level of participant contributions toward the cost of coverage will be frozen as of the date the Vested Participant commences benefits under this Plan.

(ii) A Vested Participant's or Surviving Spouse's contribution toward the cost of coverage may vary based on the level of coverage (one-person, two or more persons, etc.) in effect.

(b) Life Insurance Coverage. The cost of life insurance coverage will be paid in full by the Company.

4.06 Cessation of Medical Coverage Eligibility for the continuation of medical benefits pursuant to the Plan will cease if any payment required to be made by the Vested Participant or dependent (for example, participant contributions, copayments or deductibles) is not timely paid in accordance with procedures established by the Company.

ARTICLE 5 SPECIAL COVERAGE PROVISIONS

5.01 Grandfathered Participants. Grandfathered Participants have the right, if otherwise eligible for the Plan at the time of retirement, to elect to be covered: (i) under the terms of the Prior Plan as in effect as of September 30, 2003; or (ii) the Plan as in effect at the time of such Participant's retirement. Such election will be made pursuant to forms and procedures specified by the Company.

ARTICLE 6 CHANGE IN CONTROL

6.01 Effect of Change in Control Upon the occurrence of a "change in control" as defined in the Company's Change-In-Control Severance Plan (as in effect at the time of the event), each of the following will occur:

(a) Each Participant will become a "Vested Participant."

(b) The Plan may not be terminated or amended in any manner that adversely affects the benefits of a Participant without his or her consent.

(c) All Participant contributions, co-pays, deductibles and any other participant or dependent cost items pursuant to the terms of the Executive Medical Plan will be frozen as of the date of the change in control.

ARTICLE 7 CLAIMS AND APPEALS PROCEDURES

7.01 Claim for Medical or Life Insurance BenefitA claim or appeal relating to medical benefits under the Plan will be subject to the claims and appeals procedures set forth in the Executive Medical Plan. A claim or appeal relating to life insurance benefits under the Plan will be subject to the claims and appeals procedures set forth in the insurance contract through which such coverage is provided or the applicable coverage certificate relating to such insurance contract.

7.02 Administrative Claims. A claim or appeal relating to eligibility to participate in the Plan, status as a Vested Participant, required contributions or any other claim or appeal that is not a claim or appeal relating to a medical or life insurance benefit under the Plan will be considered an "Administrative Claim" and will be subject to the claims and appeals procedures set forth in this section 7.02. Administrative Claims will be decided by the Vice President, Compensation, Benefits and HRIS, or his or her delegate, who will be the claims administrator and the appropriate named fiduciary with respect to such claims.

(a) Notice of decision on any Administrative Claim will be furnished to the claimant within 90 days after receipt of the Administrative Claim by the claims administrator. The claims administrator may take one 90 day extension if circumstances warrant.

(b) A claimant whose Administrative Claim is denied in whole or in part will receive written notice of the denial within the timeframe specified in subsection 7.02(a) above setting forth: (i) the specific reasons for the denial; (ii) reference to the specific Plan provisions on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the Administrative Claim and an explanation of why such material or information is necessary; and (iv) information as to the steps the claimant must take to submit his or her claim for review, including the time limit for submitting the claim for review.

(c) A claimant whose Administrative Claim is denied in whole or in part may request review of the denied Administrative Claim not later than 60 days after receipt of written notification of the denial. A claimant's request for review must be in writing. The claimant may submit written comments, documents, records and other information relating to the Administrative Claim and the claimant will be provided upon request with reasonable access to and copies of documents, records and other information relevant to his or her Administrative Claim. The claims administrator, in his or her sole discretion, will determine whether a document, record or other information is relevant to a claimant's Administrative Claim.

(d) Notice of decision on review of an Administrative Claim will be furnished to the claimant within 60 days after receipt of the request for review by the claims administrator. The claims administrator may take one 60 day extension if circumstances warrant.

(e) A claimant whose Administrative Claim is denied upon review will be furnished with written notice of the denial within the timeframe specified in subsection 7.02(d) above setting forth: (i) the specific reasons for the denial; (ii) reference to the specific Plan provisions on which the denial is based; (iii) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of documents, records and other information relevant to his or her Administrative Claim; and (iv) a statement of the claimant's right to bring an action under section 502(a) of ERISA. The claims administrator, in his or her sole discretion, will determine whether a document, record or other information is relevant to a claimant's Administrative Claim. The decision of the claims administrator on a claimant's request for review shall be final and conclusive.

ARTICLE 8 CONTINUATION OF MEDICAL COVERAGE

8.01 General. In addition to the Surviving Spouse medical coverage described above, Continuation Coverage under the Plan may be purchased after the date medical coverage would ordinarily terminate under the Plan as a result of a Qualifying Event.

8.02 Participant/Beneficiary Notice Requirements In the case of the Qualifying Events described in subsections 2.09(ii) and (iii) above, the retired Vested Participant or his or her spouse or dependent must provide notice of the occurrence of the Qualifying Event not later than 60 days after the occurrence. Such notice must be provided to the COBRA administrator for the Executive Medical Plan.

8.03 Availability of Continuation Coverage Upon the occurrence of a Qualifying Event, each Qualified Beneficiary will be offered an opportunity to purchase Continuation Coverage under the Plan. The election to purchase Continuation Coverage must be made during the Continuation Coverage Election Period in such form and manner as the Company prescribes. A Qualified Beneficiary who fails to elect Continuation Coverage during the Continuation Coverage Election Period following a Qualifying Event will not be entitled to elect Continuation Coverage with respect to such Qualifying Event.

8.04 Period of Continuation Coverage Continuation Coverage as elected by the Qualified Beneficiary will extend for the period beginning on the date of loss of coverage as a result of the Qualifying Event and ending on the earliest of the following dates:

(a) If the Qualifying Event was divorce or legal separation, death of the retired Vested Participant, or loss of dependent child status, 36 months after the date Continuation Coverage began;

(b) If the Qualifying Event was a proceeding in a case under Title 11 of the United States Code: (i) for a Qualified Beneficiary who is the retired Vested Participant, the retired Vested Participant's date of death; (ii) for a Qualified Beneficiary who is the surviving spouse (determined without regard to whether such spouse was married to the Vested Participant at the time of his or her termination of employment with the Company and its affiliates) or dependent child of the retired Vested Participant, 36 months after the date of death of the retired Vested Participant;

(c) The first day for which timely payment for Continuation Coverage is not made with respect to the Qualified Beneficiary as provided in section 8.05 below;

(d) The date upon which the Company ceases to maintain any group health plan;

(e) The date upon which the Qualified Beneficiary first becomes covered under another group health plan after the date Continuation Coverage is elected; provided, Continuation Coverage will not terminate if the other group health plan contains an exclusion or limitation with respect to any preexisting condition that affects the Qualified Beneficiary, unless that limitation or exclusion does not apply to the Qualified Beneficiary because of the requirements of the Health Insurance Portability and Accountability Act of 1996;

(f) The date that the Qualified Beneficiary first becomes entitled to Medicare benefits under Title XVIII of the Social Security Act after the date Continuation Coverage is elected.

Notwithstanding anything herein to the contrary, the Company may terminate the Continuation Coverage of a Qualified Beneficiary on the same basis that the Company terminates medical coverage under the Plan for a similarly situated Participant with respect to whom a Qualifying Event has not occurred.

8.05 Payment for Continuation Coverage.

(a) Each Qualified Beneficiary who has elected to purchase Continuation Coverage will make a monthly payment to the Company in an amount up to 102% of the applicable premium determined by the Company in accordance with Internal Revenue Code Section 4980B(f)(4).

(b) The payment for the period of Continuation Coverage beginning on the date a Qualified Beneficiary would otherwise lose coverage as a result of a Qualifying Event and ending on the last day of the month during which the Qualified Beneficiary elects Continuation Coverage will be due on the date the Qualified Beneficiary elects Continuation Coverage and payment made within forty-five (45) days of such date will be deemed timely payment. The monthly payments for the remainder of the period of Continuation Coverage will be due as of the first day of the month for which the coverage is provided and payment made within thirty (30) days of the due date for each monthly installment will be deemed timely payment.

ARTICLE 9 GENERAL PROVISIONS

9.01 Amendment and Plan Termination Except as provided in ARTICLE 6, the Company may amend or terminate the Plan at any time for any reason.

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

9.03 Nonduplication of Benefits. This Section applies if the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any coverage due the Participant (or his or her dependent) under the Plan will be reduced by the actuarial value of the coverage extended or payments made to such other person or entity.

9.04 Medicare Primary. Medicare coverage is primary to medical coverage offered pursuant to the Plan. Plan coverage will be secondary to Medicare to the maximum extent permissible under law.

9.05 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to continue eligibility for executive medical and life insurance coverage pursuant to the terms of the Plan.

9.06 Construction. The Committee will have full and sole discretionary authority to determine eligibility, construe and interpret the terms of the Plan, and determine factual issues, including the power to remedy possible ambiguities, inconsistencies or omissions.

9.07 Governing Law. This Plan will be governed by the law of the State of California, except to the extent superseded by federal law.

9.08 Non-Standard Provisions. The Board or Committee may in their discretion apply eligibility requirements or terms of coverage other than the standard provisions with respect to an individual.

NORTHROP GRUMMAN CORPORATION

By: /s/ Debora Catsavas
Debora Catsavas
Vice President
Compensation, Benefits and HRIS

Date: 4/16/08

Exhibit 10(4)(i)
FORM B - OFFICER

NORTHROP GRUMMAN CORPORATION
TERMS AND CONDITIONS APPLICABLE TO 2008 STOCK OPTIONS GRANTED UNDER THE 2001 LONG-TERM INCENTIVE STOCK PLAN

These Terms and Conditions ("Terms") apply to certain stock options granted by Northrop Grumman Corporation (the "Company") in 2008. If you were granted a stock option by the Company in 2008, the date of grant of your stock option (your "Option"), the total number of shares of common stock of the Company subject to your Option, and the per share exercise price of your Option are set forth in the letter from the Company announcing your Option grant (your "Grant Letter") and are reflected in the electronic stock plan award recordkeeping system ("Stock Plan System") maintained by the Company or its designee. These Terms apply to your Option if referenced in your Grant Letter and/or on the Stock Plan System with respect to your Option. If you were granted an Option, you are referred to as the "Grantee" with respect to your Option. Capitalized terms are generally defined in Section 9 below if not otherwise defined herein.

The Option represents a right to purchase the number of shares of the Company's Common Stock, for the per share exercise price of the Option, each as stated in your Grant Letter and as reflected in the Stock Plan System. The number of shares and exercise price of the Option are subject to adjustment as provided herein. The Option is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Exercise of Option.

1.1 ***Vesting***. The Option is exercisable only to the extent that it has vested and has not expired or terminated. Subject to Sections 2 and 5 below, one-third (1/3) of the total number of shares of Company Common Stock subject to the Option (subject to adjustment as provided in Section 5.1) shall vest and become exercisable upon each of the first, second and third anniversaries of the Grant Date.

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

1.3 ***Payment of Exercise Price***. The exercise price shall be paid at the time of exercise. Payment may be made (a) in cash; (b) in the sole discretion of the Committee and on such terms and conditions as the Corporate Secretary of the Company may prescribe, either in whole or in part in Common Stock of the Company (either actually or by attestation and valued at

their Fair Market Value on the date of exercise of the Option, provided, however, that any previously-acquired shares of Common Stock used to pay the exercise price of the Option that have been acquired directly from the Company must have been owned by the Grantee for at least six (6) months before the date of such exercise); (c) in a combination of payments under clauses (a) and (b); or (d) pursuant to a cashless exercise arranged through a broker or other third party. Notwithstanding the foregoing, the Committee may at any time (a) limit the ability of the Grantee to exercise the Option through any method other than a cash payment, or (b) require the Grantee to exercise, to the extent possible, the Option in the manner described in clause (b) of the preceding sentence.

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

2. Termination of Option; Termination of Employment.

2.1 ***General***. The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void at the close of business on the last business day preceding the seventh (7^{th}) anniversary of the Grant Date (the "Expiration Date"). The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void prior to the Expiration Date if and when (a) the Option terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases to be an employee of the Company or one of its subsidiaries.

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

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

2.4 ***Other Terminations of Employment***. Subject to the following sentence, if the employment of the Grantee with the Company or a subsidiary is terminated for any reason other than the Grantee's Early or Normal Retirement, death, or Disability, or in the event of a termination of the Grantee's employment with the Company or a subsidiary on or before the six-month anniversary of the Grant Date due to the Grantee's Early or Normal Retirement, death, or Disability, the Option may be exercised (as to not more than the number of shares as to which the Grantee might have exercised the Option on the date on which his or her employment terminated) only within 90 days from the date of such termination of employment, but in no event after the Expiration Date; provided, however, that if the Grantee is dismissed by the Company or a subsidiary for cause, the Option shall expire forthwith. If the Grantee dies within 90 days after a termination of employment

described in the preceding sentence (other than a termination by the Company or a subsidiary for cause), the Option may be exercised by the Grantee's Successor for one year from the date of the Grantee's death, but in no event after the Expiration Date and as to not more than the number of shares as to which the Grantee might have exercised the Option on the date on which his or her employment by the Company or a subsidiary terminated. For purposes of this Section 2 and prior to a Change in Control, the Company shall be the sole judge of "cause" unless such term is expressly defined in a written employment agreement by and between the Grantee and either the Company or one of its subsidiaries, in which case "cause" is used as defined in such employment agreement for purposes of this Section 2. Prior to a Change in Control, the definition of "Cause" in Section 9 does not apply for purposes of this Section 2. With respect to a termination of employment upon or following a Change in Control, the definition of "Cause" in Section 9 shall apply for purposes of this Section 2.

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

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

2.7 ***Sale or Spinoff of Subsidiary or Business Unit***. For purposes of the Option, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested and the Grantee's employment does not terminate due to the Grantee's Early or Normal Retirement upon or immediately before such event and the Grantee does not otherwise continue to be employed by the Company after such event.

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

3. <u>Non-Transferability and Other Restrictions</u>.

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

4. <u>Compliance with Laws; No Stockholder Rights Prior to Issuance</u>.

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

in such form for the benefit of the Grantee) issued upon the exercise of the Option.

5. <u>Adjustments; Change in Control</u>.

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

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

(a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a "Qualifying Termination" (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee's right to severance benefits under such Change in Control Severance Arrangement.

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

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

The applicable Change in Control Severance Arrangement shall govern the matters addressed in this paragraph as to clause (a) above.

5.3 ***Automatic Acceleration; Early Termination***. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the Option following the Change in Control, or if for any other reason the Option would not continue after the Change in Control, then upon the Change in Control the outstanding and previously unvested portion of the Option shall vest fully and completely, any and all restrictions on exercisability or otherwise shall lapse, and it shall be fully exercisable. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting or exercisability of the Option shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the Option. If the Option is fully vested or becomes fully vested as provided in this Section 5.3 but is not exercised prior to a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the Option following the Change in Control, or if for any other reason the Option would not continue after the Change in Control, then the Committee may provide for the settlement in cash of the award (such settlement to be calculated as though the Option was exercised simultaneously with the Change in Control and based upon the then Fair Market Value of a share of Common Stock). The Option, if so settled by the Committee, shall automatically terminate. If, in such circumstances, the Committee does not provide for the cash settlement of the Option, then upon the Change in Control the Option shall terminate, subject to any provision that has been made by the Committee through a plan of reorganization or otherwise for the survival, substitution or exchange of the Option; provided that the Grantee shall be given reasonable notice of such intended termination and an opportunity to exercise the Option prior to or upon the Change in Control. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the Option pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the Option; provided, however, that, the Committee may reinstate the original terms of the Option if the related event does not actually occur. The

provisions in this Section 5.3 for the early termination of the Option in connection with a Change in Control of the Company supercede any other provision hereof that would otherwise allow for a longer Option term.

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

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

7. Committee Authority.

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

8. Plan; Amendment.

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

9. <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.

"**Early Retirement**" means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause) and other than a Normal Retirement. However, in the case of a Grantee who is an officer of the Company subject to the Company's mandatory retirement at age 65 policy and who, at the applicable time, is not otherwise eligible for Early Retirement as defined in the preceding sentence or for Normal Retirement, "Early

Retirement" as to that Grantee means that the Grantee's employment is terminated pursuant to such mandatory retirement policy (regardless of the Grantee's years of service and other than in connection with a termination by the Company or a subsidiary for cause).

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

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

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

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

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

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

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

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

the Grantee immediately prior to the start of the Protected Period.

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

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

"**Grant Date**" means the date that the Committee approved the grant of the Option.

"**Normal Retirement**" means that the Grantee terminates employment after attaining age 65 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause).

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

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

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

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

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

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

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

Exhibit 10(4)(ii)

NORTHROP GRUMMAN CORPORATION
TERMS AND CONDITIONS APPLICABLE TO 2008 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 2008. If you were granted an RPSR award by the Company in 2008, 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 also reflected in the electronic stock plan award recordkeeping system ("Stock Plan System") maintained by the Company or its designee. These Terms apply only with respect to your 2008 RPSR 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, 2008 to December 31, 2010 (the "Performance Period"). The target number of RPSRs subject to your award is 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 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 target 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 grant date, the Grantee is either the Chief Executive Officer of the Company or is a member of the Company's Corporate Policy Council.

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 will equal the Fair Market Value 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 be paid in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

2. <u>Early Termination of Award; Termination of Employment</u>.

2.1 ***General***. The RPSRs 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 subject to the award 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 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 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.

Death or Disability. 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 will be made in the calendar year containing the 75th day following the date of the Grantee's death or Disability (and generally will be paid on or about such 75th day). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Retirement in General. Subject to the following paragraph, in the case of Retirement, (a) the entire Performance Period will be used to calculate the Grantee's Earned RPSRs, (b) the Earnout Percentage of the Grantee's RPSRs will be determined based on actual performance for the Performance Period, and (c) payment of Earned RPSRs will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

Retirement Due to Government Service. In the case of Retirement where the Grantee accepts a position in the federal government or a state or local government and an accelerated distribution under the award is permitted under Code Section 409A based on such government employment and related ethics rules (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 prior to the Grantee's Retirement (but in no event shall such date be more than one year before the Grantee's Retirement), (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 will be made in the calendar year containing the 75th day following the Grantee's date of Retirement (and generally will be paid on or about such 75th day). The Earnout Percentage shall be determined after giving effect to Section 1.2, if applicable.

2.3 ***Other Terminations of Employment***. Subject to Section 5.2, all RPSRs subject to the award 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 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 or one of its subsidiaries 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 subject to the award requires continued employment through the last day of the Performance Period as a condition of the payment of such RPSRs. Employment for only a portion of the Performance Period, even if a substantial portion, 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.

2.8 ***Death***. In the event of the Grantee's death subsequent to the vesting of RPSRs but prior to the delivery of shares or other payment with respect to such RPSRs, the Grantee's Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement with respect to such RPSRs.

3. Non-Transferability and Other Restrictions.

The award, as well as the RPSRs 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 transfers to the Company. 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, including without limitation the right to vote or receive dividends, with respect to any shares which may be issued in respect of the RPSRs 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, 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, and 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, 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, and 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 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. Payment of any amount due under this Section 5.2 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

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 and the award shall terminate. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting 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 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 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. Payment of any amount due under this Section 5.3 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

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, that the Grantee or other person entitled to such shares or other payment pay any sums required to be withheld by federal, state, local or other applicable 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).

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.

6.3 ***Compliance with Code***. The Committee shall administer and construe the award, and may amend the Terms of the award, in a manner designed to comply with the Code and to avoid adverse tax consequences under Code Section 409A or otherwise.

6.4 ***Unfunded Arrangement***. The right of the Grantee to receive payment under the award shall be an unsecured contractual claim against the Company. As such, neither the Grantee nor any Successor shall have any rights in or against any specific assets of the Company based on the award. Awards shall at all times be considered entirely unfunded for tax purposes.

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 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 control.

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.

“**Common Stock**” means the Company’s common stock.

“**Disability**” means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee’s employer; all construed and interpreted consistent with the definition of “Disability” set forth in Code Section 409A(a)(2)(C).

“**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.

“**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.

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 first to occur of the start of the Performance Period or the start of the Protected Period, 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 include 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 15

LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

April 24, 2008

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended March 31, 2008 and 2007, as indicated in our report dated April 24, 2008; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-03959, 333-68003, 333-67266, 333-61936, 333-100179, 333-107734, 333-121104, 333-125120 and 333-127317 on Form S-8; Registration Statement Nos. 333-78251, 333-85633, 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, 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: April 24, 2008

/s/ Ronald D. Sugar

Ronald D. Sugar
Chairman and Chief Executive Officer

Exhibit 31.2

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

I, James F. Palmer, certify that:

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

Date: April 24, 2008

/s/ James F. Palmer

James F. Palmer
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 ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald D. Sugar, Chairman and Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: April 24, 2008

/s/ Ronald D. Sugar

Ronald D. Sugar
Chairman and Chief Executive Officer

Exhibit 32.2

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

In connection with the Quarterly Report of Northrop Grumman Corporation (the "company") on Form 10-Q for the period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James F. Palmer, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: April 24, 2008

/s/ James F. Palmer

James F. Palmer
Corporate Vice President and Chief Financial Officer