

***NORTHROP GRUMMAN***

A thin, curved line that starts under the 'N' and extends to the right, ending under the 'M'.

**Northrop Grumman Ship Systems  
Avondale Operations  
401 (k) Savings Plan Summary Plan Description**

**SUMMARY PLAN DESCRIPTION**

**January 1, 2008**



# Table of Contents

<b>A GUIDE TO YOUR AVONDALE 401(K) SAVINGS PLAN</b> .....	<b>1</b>
<b>OVERVIEW OF THE PLAN</b> .....	<b>2</b>
Plan Effective Date.....	2
Your Contributions.....	2
Northrop Grumman Contributions.....	2
Your Investment Options.....	2
Enrolling in the Plan.....	2
Loans and Withdrawals.....	3
Tracking Your Benefits.....	3
When You Leave Northrop Grumman.....	3
<b>PARTICIPATING IN THE PLAN</b> .....	<b>4</b>
Eligibility.....	4
When Your Participation Ends.....	4
Eligibility To Participate on Rehire.....	5
No Employment Rights.....	5
<b>ENROLLING IN THE PLAN</b> .....	<b>6</b>
Creating Your User ID and Password.....	6
<b>NAMING YOUR BENEFICIARY</b> .....	<b>7</b>
Beneficiary Designations.....	7
<b>DEFINITION OF ELIGIBLE COMPENSATION</b> .....	<b>9</b>
<b>YOUR CONTRIBUTIONS TO THE AVONDALE 401(K) SAVINGS PLAN</b> .....	<b>10</b>
How Much You Can Contribute.....	10
<i>2008 Contribution Limits</i> .....	10
Contributions for Highly Compensated Employees (HCEs).....	11
Catch-Up Contributions for Participants Age 50 and Older.....	11
Changing Your Contributions.....	11
Make-Up Contributions After a Military Leave of Absence.....	12
Rollover Contributions.....	13
If You Participated in Another 401(k) Plan Before Joining This Plan.....	14
<b>NORTHROP GRUMMAN’S CONTRIBUTIONS TO THE AVONDALE 401(K) SAVINGS PLAN</b> .....	<b>15</b>
<b>TRACKING AND MANAGING YOUR ACCOUNT BALANCE</b> .....	<b>16</b>
<b>VESTING</b> .....	<b>17</b>
Vesting After Rehire.....	17

<b>PLAN LOANS</b> .....	<b>18</b>
If You Are Considering a Loan.....	18
How To Request a Loan.....	18
How Much You Can Borrow.....	18
Order in Which Your Account Dollars Are Borrowed.....	19
Terms of Your Loan.....	19
Interest Rate and Fees.....	19
Repaying Your Loan.....	19
If You Have an Outstanding Loan and You Transfer.....	20
<b>WITHDRAWALS</b> .....	<b>21</b>
Age 59½ Withdrawal.....	21
Hardship Withdrawal.....	21
<i>Required Documentation</i> .....	22
Military Duty Withdrawal.....	23
Special Note About Hurricane Katrina/Rita Hardship Withdrawals.....	23
<b>RECEIVING YOUR AVONDALE 401(K) SAVINGS PLAN BENEFITS</b> .....	<b>24</b>
When Benefits Are Paid to You.....	24
Age 70½ Distributions.....	24
Options for Receiving Your Benefits.....	24
How To Request a Distribution of Your Benefits.....	25
What Happens to Your Benefit When You Die.....	25
<b>TAXES AND YOUR AVONDALE 401(K) SAVINGS PLAN BENEFITS</b> .....	<b>26</b>
Paying Taxes on Your Avondale 401(k) Savings Plan Benefits.....	26
Taxes on Withdrawals While You Are Working.....	27
Taxes on Distributions After Your Employment Ends.....	27
Ten-Year Averaging Rules.....	28
Important Note About Taxes.....	28
<b>INVESTING IN THE AVONDALE 401(K) SAVINGS PLAN</b> .....	<b>29</b>
Making Your Investment Selections.....	29
Fiduciary Investment Responsibility.....	29
<i>Information You Must Receive</i> .....	29
<i>Information You May Request</i> .....	30
<b>BASICS OF INVESTING</b> .....	<b>31</b>
Overview.....	31
Diversification.....	31
Saving Regularly.....	31
Tax-Deferred Compounding.....	31
Risk and Return.....	32
Asset Classes.....	32
Bonds.....	32
Stocks.....	33
Passively Managed vs. Actively Managed Funds.....	34

<b>YOUR AVONDALE 401(K) SAVINGS PLAN INVESTMENT OPTIONS .....</b>	<b>35</b>
Core Investment Funds.....	35
Target Date Funds (available beginning January 2, 2008).....	40
<b>GENERAL PLAN INFORMATION.....</b>	<b>42</b>
Administrative Fees.....	42
Future of the Plan.....	42
Plan Assets.....	42
Pension Benefit Guaranty Corporation (PBGC).....	43
Top Heavy Rules.....	43
Assignment of Benefits.....	43
Payment of Benefits to Alternate Payees.....	43
Unclaimed Benefits.....	44
Incapacity of Participant or Beneficiary.....	44
Your ERISA Rights.....	44
<i>Your Rights To Receive Information About Your Plan and Benefits</i> .....	44
<i>Prudent Actions by Plan Fiduciaries</i> .....	45
<i>Enforcing Your Rights</i> .....	45
<i>Assistance With Your Questions</i> .....	45
How To Claim Benefits.....	46
Administration of the Plan.....	47
Plan Documents.....	49
Plan Rules.....	49
<b>GLOSSARY.....</b>	<b>50</b>



# A GUIDE TO YOUR AVONDALE 401(K) SAVINGS PLAN

Whether your retirement is years away or right around the corner, saving for the future is something you can't afford to postpone. Why? Because Social Security and your pension benefits alone are not enough. A large part of your retirement income will need to come from you.

The Avondale Industries, Inc. 401(k) Savings Plan (the "Avondale 401(k) Savings Plan" or the "Plan") makes it easier for you to save by offering valuable tax advantages and convenient payroll deductions. This summary plan description (SPD) is your guide to how the Plan works.

If you have questions not answered here, contact the Merrill Lynch Retirement Service Center at **1-800-228-4015** or your local Benefits Office.

Northrop Grumman reserves the right to suspend, reduce, or discontinue contributions to the Avondale 401(k) Savings Plan at any time. Northrop Grumman also may amend or terminate the Plan at any time.

*This SPD is a summary of the main features of the Plan. It presents a summary only and does not contain all the details of all aspects of the Plan. It is not an official plan document, and neither the plan document nor this SPD constitutes an implied or expressed contract of employment.*

The actual terms of the Plan are contained in the formal plan document, which is available from the Plan Administrator. You may request a copy of the plan document from Northrop Grumman Corporation at the address shown in the section "General Plan Information: Administration of the Plan."

*The official plan document and trust agreement govern the operation of the Plan and payment of all benefits. In the event of any ambiguity in or omission from this SPD, or any conflict between this SPD and the official plan document and trust agreement, the official plan document and trust agreement govern.*

## **OVERVIEW OF THE PLAN**

Northrop Grumman offers the Avondale 401(k) Savings Plan to give you the opportunity to increase your financial security for retirement. The Plan is a type of “defined contribution” plan funded by your contributions and optional employer contributions. All contributions and gains and losses are held in trust for the benefit of Plan participants.

Here are some highlights of the Plan.

### **Plan Effective Date**

This summary plan description (SPD) describes the Avondale 401(k) Savings Plan, restated effective January 1, 2006, including amendments through January 1, 2008.

### **Your Contributions**

You can choose to contribute a percentage of your eligible compensation to your Avondale 401(k) Savings Plan account on a tax-deferred basis through convenient payroll deductions.

### **Northrop Grumman Contributions**

Northrop Grumman Ship Systems Avondale Operations may contribute to your account through employer matching contributions and/or discretionary contributions. *Note: Only employees covered by a collective bargaining agreement that provides for participation in the Plan are eligible to receive employer matching and/or discretionary contributions.*

### **Your Investment Options**

You decide how to invest your account dollars in any of several investment options, with different levels of potential risk and return.

### **Enrolling in the Plan**

You are eligible to participate in the Plan immediately upon hire or rehire if you are 18 years old or older. When you are eligible to enroll in the 401(k) Savings Plan, Merrill Lynch will send you a Plan Highlights document. However, you don't need to wait for the document from Merrill Lynch. You can enroll online through Merrill Lynch's Web site at [www.benefits.ml.com](http://www.benefits.ml.com). You will need to set up a User ID and Password by clicking on the “Create User ID” link in the right-hand corner of the site's home page. You will be prompted to enter your Social Security Number as well as some security information before creating your User ID and password. Alternatively, you can call the Merrill Lynch Retirement Service Center at **1-800-228-4015** to set up your User ID and Password. (Note: Avondale must notify Merrill Lynch about your eligibility to participate before you can enroll.)

## **Loans and Withdrawals**

If you need access to money in your account, you may be able to take out a loan or make an in-service withdrawal. However, because the Plan is designed to help you save for retirement, taxes and penalties may apply. Call the Merrill Lynch Retirement Service Center at **1-800-228-4015** for more information.

## **Tracking Your Benefits**

Benefits are determined on the basis of your account balance. Because your account balance is affected by future events, such as the amount of each year's contribution to the trust and the performance of trust investments, no specific amount can be promised as a benefit. Accordingly, there is no government insurance for your benefit. Quarterly account statements are provided to help you track your account balance over time.

## **When You Leave Northrop Grumman**

When you leave Northrop Grumman Corporation and your account balance exceeds \$1,000, you can leave it in the Plan or you can take it in the form of a lump sum distribution. However, if your account balance is \$1,000 or less, you will automatically receive it as a single lump sum payment as soon as administratively possible, but no sooner than 30 days following your retirement or date of termination.

# **PARTICIPATING IN THE PLAN**

## **Eligibility**

You are eligible to participate in the Plan immediately upon hire or rehire if you are 18 years old or older. Only employees who are covered by a collective bargaining agreement that provides for participation in the Plan are eligible. You will not be eligible to participate in the Plan if you are:

- Covered by a collective bargaining agreement that does not provide for your participation
- A non-represented employee<sup>1</sup>
- An employee providing services under an oral or written contract or leasing agreement with an unrelated employer
- A leased employee
- An independent contractor, a contractor, a jobber, or a consultant (definitions subject to the participating employer's standard personnel practices).

Your status as an eligible employee is determined by the Plan Administrator and such determination is conclusive and binding on you notwithstanding any contrary determination by any court or governmental agency.

## **When Your Participation Ends**

Your *active* participation ends when you are no longer employed by any participating employer or when you become employed in a position that is not eligible to participate in the Plan. When your active participation ends, you are no longer eligible to contribute to the Plan.

However, you remain a participant entitled to share in the gains and losses on your investments and to exercise the rights of a participant as to claims for benefits and receipt of information until your account balance is distributed and/or forfeited and no further benefits are payable to you under the Plan.

---

<sup>1</sup> The Avondale 401(k) Savings Plan was closed to non-represented employees on June 30, 2003. On that date, all non-represented Avondale employees became eligible to participate in the Northrop Grumman Savings Plan and their accounts under the Avondale 401(k) Savings Plan were deemed 100% vested and frozen to new contributions.

**Eligibility To Participate on Rehire**

You are eligible to participate in the Plan immediately upon rehire if you are 18 years old or older.

**No Employment Rights**

Your participation in the Plan does not give you the right to remain employed by a participating employer, and it does not give you a right or claim to any benefit you did not earn under the terms of the Plan.

## ENROLLING IN THE PLAN

When you are eligible to enroll in the 401(k) Savings Plan, Merrill Lynch will send you a Plan Highlights document that includes important information about the Plan, including details on accessing Merrill Lynch's Web site at [www.benefits.ml.com](http://www.benefits.ml.com) to enroll online. You will need to set up a User ID and Password by clicking on the "Create User ID" link in the right-hand corner of the site's home page. You will be prompted to enter your Social Security Number as well as some security information before creating your User ID and Password.

Alternatively, you can call the Merrill Lynch Retirement Service Center at **1-800-228-4015** to set up your User ID and Password.

Payroll deductions will begin as soon as administratively feasible after you enroll — normally the first payroll period after Northrop Grumman payroll receives your election. After you enroll, check your pay stub to see if the correct amount was deducted. If an incorrect amount was deducted, call the Merrill Lynch Retirement Service Center at **1-800-228-4015** and follow the prompts to speak with a participant service representative (PSR).

Once you enroll, you may change your contribution and investment elections by calling the Merrill Lynch Retirement Service Center.

### **Creating Your User ID and Password**

Your User ID is a unique identification that allows you to access your personal Plan information. You will need to create a User ID and Password by clicking on the "Create User ID" link in the right-hand corner of Merrill Lynch's Web site at [www.benefits.ml.com](http://www.benefits.ml.com) the first time you enroll. You will be prompted to enter your Social Security Number as well as some security information before creating your User ID and Password. This process helps ensure that your personal information is protected. Alternatively, you can call the Merrill Lynch Retirement Service Center at **1-800-228-4015** to set up your User ID and Password.

## NAMING YOUR BENEFICIARY

When you enroll in the Avondale 401(k) Savings Plan, you need to designate a primary beneficiary(ies) — the individual(s), estate, or trust that will receive your account balance in the event of your death. You can also name other beneficiaries — called contingent beneficiaries — who will receive your account balance if you and your primary beneficiary(ies) die before receiving your Plan benefits.

You may designate your beneficiary(ies) and view and update your beneficiary designation on Merrill Lynch's Web site at [www.benefits.ml.com](http://www.benefits.ml.com). Alternatively, you may call the Merrill Lynch Retirement Service Center at **1-800-228-4015** to request that a beneficiary designation form be mailed to you. You may change your beneficiary designation(s) at any time.

### Beneficiary Designations

**Primary beneficiary** — Anyone listed as a primary beneficiary receives your Plan benefits first on your death. If you name more than one primary beneficiary when you enroll, you must indicate the percentage of your account balance that each beneficiary will receive in the event of your death. If any primary beneficiary dies before you, his or her percentage is divided equally among the surviving primary beneficiaries (if any). If all primary beneficiaries die before you, then your Plan benefits are paid to any contingent beneficiaries who survive you.

**Contingent beneficiary** — Anyone listed as a contingent beneficiary receives your Plan benefits only if all of your primary beneficiaries are deceased at the time of your death. If more than one person is designated as a contingent beneficiary, then each one receives the percentage you designate. If any contingent beneficiary dies before you, his or her percentage is divided equally and paid to the surviving contingent beneficiaries. If there are no surviving contingent beneficiaries, your benefit is paid to your surviving spouse, if any, or to your estate.

**Estate or trust as beneficiary** — If an estate or trust is designated as beneficiary, the Plan Administrator and its agents have no obligation to determine the validity or sufficiency of any executed estate or trust agreement, or to pass judgment on its legality. In making any payment to a trustee, the Plan Administrator and its agents have the right to assume that the trustee is acting in a fiduciary capacity. The Plan, the Plan Administrator, and the Plan Administrator's agents are not liable for any payments made to the trustee.

***If you are single***, you can name any individual(s) or trust as a beneficiary. If you do not choose a beneficiary, your beneficiary is your estate.

***If you are married***, your spouse is automatically your beneficiary. If you want to designate someone other than your spouse as your primary beneficiary, your spouse must consent to your choice in accordance with Plan procedures. Your spouse's consent must be in writing, and his or her signature must be notarized.

***If you get married after making a beneficiary designation***, any prior beneficiary designations are invalid and your spouse becomes your new beneficiary (unless he or she consents to your designation of a different beneficiary). In addition, if you are married and you formally designate your spouse as your beneficiary (for example, if you complete a beneficiary designation form and name your spouse to receive part of your benefit and your children to receive the remaining portion of your benefit), and you later ***divorce your spouse***, the designation of your spouse to receive part of your benefit is automatically revoked. You must designate a new beneficiary to receive your plan benefit in the event of your death.

You should periodically review your beneficiary designation and keep it up to date. For example, if you have a change in status (you get married, get divorced, or have a child), you may want to add or change beneficiary(ies).

Beneficiary designations are not effective until they are received by Merrill Lynch via regular mail at the Retirement Service Center or via the Web at [www.benefits.ml.com](http://www.benefits.ml.com).

## **DEFINITION OF ELIGIBLE COMPENSATION**

Your eligible compensation is defined thoroughly in the plan document, but generally it includes your base pay plus overtime, bonuses, short-term disability paid by the Company, contributions made under this Plan, and elective contributions made on your behalf to a cafeteria plan. Most other forms of compensation paid during the Plan year are not included.

Your eligible compensation for the Plan year in which you terminate employment includes only amounts paid before the end of the month following the month you leave the Company. For example, if you terminate employment on August 15, your eligible compensation includes amounts paid to you by the end of September.

# YOUR CONTRIBUTIONS TO THE AVONDALE 401(K) SAVINGS PLAN

## How Much You Can Contribute

As a participant in the Avondale 401(k) Savings Plan, you may contribute between 1% and 30% of your eligible compensation in 1% increments. For exceptions, see “Contributions for Highly Compensated Employees (HCEs).”

Your contributions to the Plan are invested on a tax-deferred basis, meaning they are deducted from your paycheck before taxes are paid. You do not pay taxes on your contributions until you withdraw them — presumably at retirement, when your tax bracket may be lower.

Federal law limits the dollar amount you and Northrop Grumman may contribute to the Plan. These limits are determined by the Internal Revenue Code (IRC) and may change from year to year.

If necessary, your employer may reduce, stop, or refund your contributions to ensure that contributions on your behalf do not exceed Plan or IRC limits, and also to ensure that the special discrimination test that applies to this type of plan is passed each Plan year.

## **2008 Contribution Limits**

- If you are under age 50 in 2008, you may contribute up to \$15,500 on a tax-deferred basis for 2008. If you will be 50 or older by the end of the calendar year, you may contribute up to \$20,500 on a tax-deferred basis for 2008 (\$15,500 + \$5,000 in “catch-up” contributions). (See “Catch-Up Contributions for Participants Age 50 and Older” for more information about catch-up contributions.)
- The total annual “eligible compensation” on which your Avondale 401(k) Savings Plan contributions may be based is your first \$230,000 of earnings. Pay above this limit cannot be deferred into the Plan and cannot be included in calculating any employer contribution
- The maximum combined contribution that can be made to your account by you and Northrop Grumman Corporation during the year is 100% of your compensation (as defined under IRC Section 415) or \$46,000 (\$51,000 if you are age 50 or older),<sup>2</sup> whichever is less.

Your Plan contributions may have to be adjusted or stopped if you reach any of these limits.

---

<sup>2</sup> Subject to cost of living increases.

<b>How Much Are You Allowed To Save in 2008?</b>		
	<b>Under Age 50</b>	<b>50 or Older</b>
<b>Your contribution limit</b>	30% of pay <sup>1</sup>	30% of pay <sup>1</sup> + \$5,000 in catch-up contributions
<b>Your tax-deferred savings limit</b>	\$15,500	\$20,500 (\$15,500 + \$5,000 in catch-up contributions)
<b>Limit on total contributions (your tax-deferred contributions plus Northrop Grumman's matching contributions and discretionary contributions, if applicable)</b>	100% of annual pay or \$46,000, whichever is less	100% of annual pay or \$51,000 (\$46,000 + \$5,000), whichever is less

<sup>1</sup> If you are a highly compensated employee as defined by the IRC, your contribution limit may be lower.

### **Contributions for Highly Compensated Employees (HCEs)**

Nondiscrimination rules require that annual tests be performed to determine the maximum percentage that HCEs can contribute to a plan. If the Plan fails such tests, contributions of the HCEs may be limited for a portion of the Plan year. You will be informed if you are considered to be a HCE as defined by the IRS and your contributions will be reduced or if excess contributions will be distributed to you.

### **Catch-Up Contributions for Participants Age 50 and Older**

If you will be at least age 50 by the end of the calendar year, you are eligible to make an additional tax-deferred "catch-up" contribution of \$5,000 to the Plan in 2008. You are allowed to contribute above the Plan's contribution limit so that you can reach the catch-up contribution limit (i.e., you can contribute above the IRS tax-deferred contribution limit of \$15,500 in 2008).

If you wish to make catch-up contributions, you must make a separate catch-up contribution election each year. Both your regular contributions and your catch-up contributions are deducted automatically and concurrently from your paycheck.

You can elect to make catch-up contributions by calling the Merrill Lynch Retirement Service Center at **1-800-228-4015**.

### **Changing Your Contributions**

You can increase, decrease, stop, or restart your contributions at any time by calling the Merrill Lynch Retirement Service Center at **1-800-228-4015**. Your request normally is

effective the next payroll period. (If your request is made close to the beginning of the next payroll period, it may not be reflected until the following payroll period.)

### **Make-Up Contributions After a Military Leave of Absence**

If you are released from active service in the U.S. military, you may qualify to make up any contributions to the Plan that you could not make during your absence.

In addition, if you are eligible and you elect to make up contributions, Northrop Grumman credits your account with any employer matching contributions to which you would have been entitled had you remained actively employed. However, earnings that would have accumulated on these funds are not credited to your account.

To be eligible for make-up contributions, the combined total of all of your military leaves of absence normally may not exceed five years, and you must do each of the following:

- Be called to active or inactive duty by a branch of the U.S. uniformed services for training or other reasons,
- Provide your business unit with advance notice of your leave, in accordance with its procedures,
- Be released from active service with a honorable discharge, and
- Report back to work in a timely manner (in accordance with federal law) after completing your service.

The election period for military make-up contributions begins on the date that you return to work at Northrop Grumman and ends on the earlier of:

- Five years after the date you return to work, or
- A period that equals three times your military leave of absence period. For example, if your leave of absence lasts six months, your election period is 18 months.

There are exceptions to these rules.

**For more information about eligibility for military leaves of absence and make-up contributions, contact the Merrill Lynch Retirement Service Center.**

For purposes of make-up contributions under the Plan, a branch of the U.S. uniformed services means:

- U.S. Army, U.S. Air Force, U.S. Navy, U.S. Marine Corps, U.S. Coast Guard, and their reserve units,
- Army National Guard,

- Air National Guard, or
- Commissioned corps of the U.S. Public Health Services.

## Rollover Contributions

If you participate in the Plan, you may roll over tax-deferred money into this Plan from an “eligible retirement plan,” which includes:

- An individual retirement account (IRA) under IRC Section 408(a)
- An individual retirement annuity under IRC Section 408(b)
- Another qualified employer plan under IRC Section 401(a)
- An annuity plan under IRC Section 403(a)
- A tax-free annuity plan under IRC Section 403(b).

Rollovers are credited to a special Rollover Contribution Account maintained for your benefit in the Plan. Rollovers cannot be accepted from certain government-sponsored plans, including IRC Section 457(b) plans.

To request a rollover *into* the Avondale 401(k) Savings Plan, simply follow these steps:

- Call the Merrill Lynch Retirement Service Center at **1-800-228-4015** to request a rollover form, or download a form from Merrill Lynch’s Web site at [www.benefits.ml.com](http://www.benefits.ml.com). The form includes instructions for submitting a rollover
- Complete the rollover form and select the desired investment funds for your rollover money
- Ask the other plan’s administrator for a copy of that plan’s favorable letter of determination from the IRS. If the prior plan does not have such a letter, you should request from the plan’s administrator a letter certifying that the plan was designed and operated in accordance with the laws that applied to it. *Note: If you are rolling money over from an IRA, special certification requirements apply. Contact the Merrill Lynch Retirement Service Center if you have questions*
- Request a rollover distribution check from the other plan, **made payable to the Avondale 401(k) Savings Plan**. This will ensure that you can roll over the entire balance from your other plan. *If the check is made payable to you instead of the Avondale 401(k) Savings Plan, the other plan’s administrator will be required to treat the rollover as a distribution, and will withhold a mandatory 20% federal tax.* Then, if you want to roll over the entire amount of your former plan balance, you will have to come up with an amount equal to the 20% that was withheld. If you roll over only the amount payable to you and do not restore the 20% that was withheld, you will have to pay taxes on the amount that

was withheld. If you are under age 59½, a 10% early withdrawal penalty tax will also apply

- Promptly mail the check along with your completed rollover form and certification letter or other required documentation to Merrill Lynch at the address on the form. **The distribution check must be deposited into the Avondale 401(k) Savings Plan within 60 days of the date you receive it. If it is not deposited by then, your distribution will not be eligible for rollover and you will be taxed on it.**

The Plan does not accept direct wire transfers of funds.

The Plan does not accept rollovers from other Northrop Grumman-sponsored retirement plans.

### **If You Participated in Another 401(k) Plan Before Joining This Plan**

The annual tax-deferred-savings limit applies to your contributions to *all* 401(k) plans during the year. If you participated in another 401(k) plan during the year, **call the Merrill Lynch Retirement Service Center at 1-800-228-4015 by March 1 of the year following any year in which you participated in more than one 401(k) plan.** The Plan Administrator has to determine whether you need to receive a corrected IRS Form W-2 and any corrective distributions so that your total contributions to both plans do not exceed the limit that applies to you. Any refunds to you must be paid from your tax-deferred contributions by April 15. If you have to receive a corrective distribution, your employer matching contributions also may be reduced.

## **NORTHROP GRUMMAN'S CONTRIBUTIONS TO THE AVONDALE 401(K) SAVINGS PLAN**

Northrop Grumman may, in its sole discretion, make **employer matching contributions** and/or **discretionary contributions** to your account on your behalf. Effective January 1, 2007, the employer matching contribution equals 20% of the first 5% of pay you contribute. To be eligible to receive employer matching and discretionary contributions, you must contribute to the Plan during the applicable year and you must be employed by Northrop Grumman through the last day of the Plan year (December 31).

The following example shows how the matching contribution is calculated. Assume an employee is earning \$15 an hour (\$31,200 a year) and contributes 5% of his pay (\$1,560) to the Plan. On the basis of this contribution, he would receive an employer matching contribution equal to \$312:

- $\$15/\text{hour} \times 40 \text{ hours/week} \times 52 \text{ weeks/year} = \$31,200$
- $\$31,200 \times 0.05 = \$1,560$
- $\$1,560 \times 0.20 = \$312.$

Employer discretionary contributions, if any, will be allocated annually as of each December 31. Discretionary contributions are determined by the Board of Directors of Northrop Grumman Ship Systems, Inc. If you receive matching and/or employer discretionary contributions, they are held in your Employer Contribution Account.

## **TRACKING AND MANAGING YOUR ACCOUNT BALANCE**

You can check your current account balance or make changes to your account at any time by calling the Merrill Lynch Retirement Service Center at **1-800-228-4015** or by logging on to the Merrill Lynch Web site at [www.benefits.ml.com](http://www.benefits.ml.com).

You will receive a quarterly "Participant Summary Report" showing the amount held for your benefit in each investment option and all transactions (gains and losses, transfers, withdrawals, loans, loan repayments) that occurred during the quarter. In addition, you will receive a confirmation within a few days after you instruct Merrill Lynch by telephone to make a transfer between investment funds or to change the way your new contributions are allocated.

## VESTING

Being vested in your account means that you have a nonforfeitable right to the amounts credited to your account. Under the Plan, you are always fully vested in your contributions — including related earnings and any rollover contributions and earnings.

Your interest in your Employer Contribution Account (which may include employer matching contributions and/or discretionary contributions) is fully vested if, while employed by Northrop Grumman, you die, become disabled, or reach age 65.<sup>3</sup> Otherwise, your Employer Contribution Account becomes vested according to the following schedule.

<b>Years of Service</b>	<b>Vested Percentage</b>
Fewer than three	0%
Three or more	100%

“Disability” is defined as the total and permanent incapacity to engage in any substantial gainful employment, as determined by the Committee, which qualifies a participant for commencement of benefits for permanent and total disability under Federal Old Age and Survivor Insurance.

See the glossary for the definition of “year of service.”

If you terminate your employment before you become fully vested, the unvested portion of your account is forfeited at the end of the Plan year in which you incur five consecutive one-year breaks in service (defined in the glossary). If this occurs, your service prior to the five consecutive breaks in service is disregarded for purposes of vesting if you are later rehired. These rules do not apply if you terminate your employment after becoming fully vested.

### **Vesting After Rehire**

If you are reemployed prior to a five-year break in service, your years of service prior to your break in service are added to your new service to determine your vesting in your Employer Contribution Account. If you experience five or more consecutive one-year breaks in service (as defined in the glossary), your prior service is disregarded.

---

<sup>3</sup> All non-represented employees who participated in the Plan on June 30, 2003 are fully vested in their Employer Contribution Account. However, their accounts are frozen to new employee or employer contributions.

## PLAN LOANS

Through its loan feature, the Plan offers you access to your savings and gives you the opportunity to borrow against your account balance while you are actively employed by a participating employer, up to the limits described in the section “How Much You Can Borrow.” You repay the loan — including interest — to your own account.

### If You Are Considering a Loan

If you are interested in borrowing money from your 401(k) Savings Plan account, you should do all of the following:

- Read the information in this section carefully,
- Contact the Merrill Lynch Retirement Service Center at **1-800-228-4015** to inquire about loan eligibility, the amount you may borrow, and the current interest rate for loans,
- Follow the instructions under “How To Request a Loan”, and
- Check your pay stub after the loan repayment period begins to ensure that the proper loan payment is being deducted each pay period. If your deduction appears to be incorrect, call the Merrill Lynch Retirement Service Center and speak with a representative within 30 days after you receive your paycheck.

### How To Request a Loan

To process a loan, log on to the Merrill Lynch Web site at [www.benefits.ml.com](http://www.benefits.ml.com) or call the Merrill Lynch Retirement Service Center at **1-800-228-4015**. A Merrill Lynch representative will provide you with details on the rules governing the loan, such as the amount of the loan, rate of interest, and procedures for collection of loan interest and principal.

Generally, loan requests are processed on the date of request. However, it takes three to four days to process the check and additional time to mail it. You can request that your check be sent via express U.S. mail for a \$20 fee, or via first class U.S. mail (which means you won't receive your check for an additional four to seven business days).

### How Much You Can Borrow

Your loan must be in a whole dollar amount at least equal to \$1,000. The maximum loan amount for which you are eligible is the lesser of:

- \$50,000 (less the highest amount of all outstanding loan balances, if any, you had during the previous 12-month period)
- One-half of your total vested account balance.

You can have no more than two loans outstanding at any time. If you make a final repayment on one of two outstanding loans, a new loan cannot be obtained until 30 days pass following that final payment.

### **Order in Which Your Account Dollars Are Borrowed**

When you borrow money from your account, the money is withdrawn in equal amounts from all funds in which you invest.

### **Terms of Your Loan**

The term of a loan cannot be less than 12 months (one year) or more than 60 months (five years).

### **Interest Rate and Fees**

The interest rate for all loans will be one percentage point above the prime rate reported in the Wall Street Journal as of the last business day of the month preceding the month in which you apply for a loan.

You are charged a \$40 loan setup fee and \$15 distribution check fee.

### **Repaying Your Loan**

All payments are automatically withheld from your pay as long as you are employed. On termination of employment, you must repay your loan in full within 90 days. To repay your loan, either:

- Contact Merrill Lynch at **1-800-228-4015** for a repayment form and return the completed form with a cashier's check or certified check for the full amount of your loan balance, or
- Access the Merrill Lynch Web site at [www.benefits.ml.com](http://www.benefits.ml.com) to request a direct debit from your checking account. Be prepared to enter your bank's routing number and your checking account number online.

Please note that it may take five to seven business days to process your final loan payoff.

If you do not pay off your loan in full within 90 days after terminating employment, your loan is in default. The outstanding loan amount is subject to federal taxes and, if you are under age 59½, a 10% early withdrawal penalty.

Repayment of principal is amortized over the term of the loan, so all payments are substantially the same. Each payment (including the interest you pay on your loan) is made directly to your account and invested pursuant to your most recent investment allocation election.

While you are on unpaid leave, you may make loan payments directly to the trustee according to your loan repayment schedule, or you may suspend payments for up to 12 months. If you do not make loan payments during your leave, your missed payments are deducted from your paycheck on your return to work.

### **If You Have an Outstanding Loan and You Transfer**

If you transfer to another business unit, you are still responsible for repaying outstanding loans under the original loan terms — even if your new business unit does not participate in the Plan.

## **WITHDRAWALS**

You may withdraw money from your account while you are employed with Northrop Grumman. The Plan offers two in-service withdrawal options:

- Age 59½ withdrawals
- Hardship withdrawals.

### **Age 59½ Withdrawal**

If you are age 59½ or older, you may withdraw all or any portion of your vested accounts at any time by notifying the Plan Administrator. Any such withdrawal does not affect your right to continue making contributions to the Plan.

### **Hardship Withdrawal**

If you experience a financial hardship while employed by Northrop Grumman and you exhausted all of your other financial resources (including other available withdrawals and nontaxable loans through any plan sponsored by an entity within the Northrop Grumman Corporation controlled group in which you have an account balance), you can request a hardship withdrawal from the Plan.

If you meet the requirements for a hardship withdrawal, you may withdraw the following from your account:

- Your tax-deferred contributions
- Any rollover contributions.

You may take a hardship withdrawal from your account for any of the following reasons:

- You, your spouse, your eligible dependents or, effective September 1, 2007, your primary beneficiary incur qualifying uninsured medical or dental expenses
- You purchase a primary residence (however, you may not take a hardship withdrawal to make mortgage payments)
- You, your spouse, your eligible dependents or, effective September 1, 2007, your primary beneficiary are paying tuition and related education fees for post-secondary education over the next 12 months
- You are preventing eviction from or foreclosure on the mortgage of your primary residence
- Effective September 1, 2007, you need to pay for funeral expenses for your spouse, child, parent, your eligible dependents or your primary beneficiary

- Effective September 1, 2007, you suffer personal casualty losses.

You may withdraw only the amount you need to relieve your financial hardship and cover any related taxes and penalties. In addition, if you take a hardship withdrawal, contributions to any plan within the Northrop Grumman Corporation controlled group in which you participate may be suspended until the first of the month after the six-month anniversary of the hardship withdrawal.

If you request a hardship withdrawal, you must submit documentation of the need for the withdrawal to Merrill Lynch for review and approval, including:

- A statement regarding the amount of and purpose for the withdrawal
- A statement that your financial need cannot be satisfied in any other way
- A promise that the funds will be used only for the purpose stated.

***Required Documentation***

The following chart describes the type of documentation required for the various types of hardship withdrawals. You may be required to submit a balance sheet reflecting your assets and liabilities or an income statement reflecting your income and expenses.

Reason for Withdrawal	Documentation Required
Medical expenses for you, your spouse, a dependent or your primary beneficiary	A medical insurance explanation of benefits (EOB) form less than six months old stating amounts due and paid by insurance. Bill must be for services rendered, not upcoming events. If the individual is not covered by insurance during the time period in question, he or she must submit a notarized letter stating that there was no coverage for the individual when services were rendered.
Down payment for your purchase of a primary residence	Purchase and sales agreement signed by both the buyer and the seller. A good faith estimate showing the down payment and closing costs. If the purchase is to build a home, a contract of sale is needed to prove the home will be used as the primary residence for the participant on its completion.
Tuition and related post-secondary education fees for you, your spouse, a dependent or your primary beneficiary	Proof of enrollment and amount of tuition and fees (up through 12 months). Past semesters and student loans are not covered. Room and board are covered for on-campus housing only. Related expenses must be a requirement of the institution.

Reason for Withdrawal	Documentation Required
Money to prevent your eviction from or foreclosure on the mortgage of your primary residence	Notice from your mortgage company or rental agency on company letterhead stating the amount required to avoid foreclosure or eviction and the deadline for payment. If foreclosure or eviction has begun, a settlement offer must be attached. If actions are taken through a private vendor, the aforementioned letters must be notarized. The letter must not be more than 60 days older than receipt of the application. Hardships cannot be granted once bankruptcy is filed unless a court order was entered that allows the mortgage company to foreclose.
Funeral expenses	Receipts for burial or funeral expenses for your spouse, child, parent, your eligible dependents or your primary beneficiary.
Personal casualty losses	Receipts for repairs of damage to your principal residence, which would qualify for a casualty deduction under IRC Section 165 (determined without regard to whether your loss exceeds 10% of adjusted gross income).

Before you take a hardship withdrawal, be sure to consider the taxes that apply. A hardship withdrawal is a fully taxable distribution. A 10% federal penalty tax may also apply. In addition, special federal income tax withholding requirements apply, and many states have similar tax and penalty requirements. You should consult your own personal tax advisor before requesting a hardship withdrawal.

### **Military Duty Withdrawal**

Effective September 1, 2007, if you are a reservist ordered or called up to active duty on or after September 11, 2001 and before January 1, 2008 for a period of at least 180 days, you may request a distribution from the Plan of all or any portion of your tax-deferred contributions (plus earnings). This distribution will not be subject to the 10% federal penalty tax discussed above, but it is a fully taxable distribution.

### **Special Note About Hurricane Katrina/Rita Hardship Withdrawals**

Plan participants who experienced an immediate and heavy financial need as a result of Hurricane Katrina (which occurred on August 29, 2005) or Hurricane Rita (which occurred on September 24, 2005) were eligible to request a Hurricane Katrina or Hurricane Rita hardship withdrawal between August 29, 2005 and March 31, 2006. ***Hurricane Katrina and Hurricane Rita hardship withdrawals are not allowed after March 31, 2006.***

# RECEIVING YOUR AVONDALE 401(K) SAVINGS PLAN BENEFITS

## When Benefits Are Paid to You

You are eligible to receive a distribution of your vested account balance when you experience a separation from employment. A separation from employment does not include a transfer to another business unit within the Northrop Grumman Corporation controlled group family of companies.

## Age 70½ Distributions

If you are no longer an active employee of an entity within the Northrop Grumman Corporation controlled group, you will receive a distribution of your account as a lump sum consisting of your entire account balance, including any rollover amounts. This distribution generally is paid in December of the year you reach age 70½.

## Options for Receiving Your Benefits

**If you are eligible to receive your Plan benefits and your account balance exceeds \$1,000** (including any unpaid loan balance), you may choose to:

- Receive payment of your entire account balance (called a lump sum distribution)
- Delay payment until you reach age 70½
- Roll over your account balance to an individual retirement account (IRA) or another employer's qualified retirement plan. This allows you to postpone federal and state income taxes and avoid any applicable penalty tax. Contact the Merrill Lynch Retirement Service Center at **1-800-228-4015** for more information.

If your account balance exceeds \$1,000 and you make no election, you are deemed to have elected to receive your benefit at the latest possible date. This election is not irrevocable; you can later elect to accelerate payment. If you consent to a distribution, that distribution will be made as soon as administratively possible but no sooner than 30 days following your retirement or date of termination.

**If you are eligible to receive your Plan benefits and your account balance is \$1,000 or less**, it will automatically be distributed to you as a lump sum as soon as administratively possible, but no sooner than 30 days following your separation from employment. When your employment ends, Merrill Lynch will mail you a Tax Withholding/Rollover Form. If the form is not received by Merrill Lynch within 30 days of being mailed or handed to you, you will automatically receive a check from the Plan. If your account balance is more than \$200, the

check will be equal to 80% of your account balance; the other 20% will be sent to the IRS as income tax withholding to be credited against your taxes.

### **How To Request a Distribution of Your Benefits**

To request a lump sum distribution, call the Merrill Lynch Retirement Service Center at **1-800-228-4015** or go online to [www.benefits.ml.com](http://www.benefits.ml.com). Merrill Lynch must have your employment termination date recorded in the system before you can get a distribution.

Distributions are processed daily. Your account remains fully invested until your distribution is processed, and it is subject to investment gains and losses.

Under unusual circumstances or to protect the financial integrity of the Plan, the Plan Administrator may apply different valuation rules, time or date.

### **What Happens to Your Benefit When You Die**

If you die with funds in your account, your account will be distributed to or set aside for your beneficiary. You can name one or more beneficiaries to receive benefits upon your death using forms provided by the Plan Administrator. If you are married and wish to name a primary beneficiary other than your spouse, your spouse must sign his or her consent in writing in the presence of a Notary Public. If you do not name a beneficiary, or if none of the beneficiaries you name survive you, your benefits are paid to your estate.

Your beneficiary (surviving spouse, or, effective September 1, 2007, another individual or certain trusts) may roll over your account balance, after your death, to an individual retirement account (IRA). This allows him or her to postpone federal and state income taxes. Contact the Merrill Lynch Retirement Service Center at **1-800-228-4015** for more information.

If your beneficiary dies after you die but prior to receiving a distribution of your account balance, your account balance will be distributed to your beneficiary's estate.

For information on naming a beneficiary, see "Naming Your Beneficiary" or call the Merrill Lynch Retirement Service Center at **1-800-228-4015** or go online to [www.benefits.ml.com](http://www.benefits.ml.com).

# **TAXES AND YOUR AVONDALE 401(K) SAVINGS PLAN BENEFITS**

## **Paying Taxes on Your Avondale 401(k) Savings Plan Benefits**

The Plan offers significant tax advantages. Your tax-deferred contributions, employer matching contributions, discretionary contributions, and earnings on your investments are not subject to federal income taxes as long as they remain in the Plan. They may continue to grow tax-deferred until you withdraw them. Many states that impose an income tax provide the same tax advantages as the federal government.

When you receive a distribution from your account, the amount of your federal income taxes depends on:

- When you receive the distribution
- The form of payment you select
- Certain elections that you make
- Whether or not you roll the amount over to an IRA or another employer's qualified retirement plan.

The tax consequences described here and elsewhere in this document apply as long as the Plan continues to satisfy the IRC's requirements for qualification.

The Plan itself and its underlying trust generally are exempt from federal income tax as long as they remain qualified under IRC Sections 401 and 501. However, the Plan's trust would be subject to the unrelated business income tax provisions of the IRC if it were to take any action subject to those provisions.

The Plan also is subject to taxes and fees assessed by foreign governments to the extent it invests abroad. It also may be possible for domestic state and local governments to tax the trust.

Northrop Grumman does not pay federal income tax on the income of the Plan's trust and receives current deductions for contributions to the Plan as long as the Plan and its underlying trust remain qualified under IRC Sections 401 and 501 and the contributions come within the limits prescribed by the federal income tax laws. Contributions in excess of those limits would not be deductible by Northrop Grumman when made and would subject Northrop Grumman to a 10% federal excise tax.

## **Taxes on Withdrawals While You Are Working**

If you are actively employed by a Northrop Grumman Corporation entity, all tax-deferred contributions, employer matching contributions, discretionary contributions, and investment earnings that you withdraw are taxable as ordinary income. Unless you instruct the Plan Administrator to roll over these amounts, the taxable portion of your withdrawal is subject to mandatory 20% federal income tax withholding. You pay any additional income taxes, or recover any overpayment, when you file your tax return.

In a hardship withdrawal, the mandatory 20% income tax withholding rules do not apply. Instead, the law requires Northrop Grumman to withhold 10% of the withdrawal for federal income taxes unless you elect otherwise. Also, the law does not allow you to roll over this money.

If you are under age 59½ and are actively employed by a Northrop Grumman Corporation entity, withdrawals also may be subject to a 10% federal penalty tax that you must pay when you file your tax return. A state penalty tax also may apply. Check with your tax advisor for details.

## **Taxes on Distributions After Your Employment Ends**

If you terminate employment and receive a distribution, your tax-deferred contributions, employer matching contributions, discretionary contributions, and all investment earnings are taxed as ordinary income.

Under current tax law, 20% federal income tax withholding is required on your distribution. You pay any additional income taxes, or recover any overpayment, when you file your tax return. However, you can postpone federal and state income taxes by rolling over your distribution into an individual retirement account (IRA) or another employer's qualified plan.

If you are under age 55 when you terminate employment, distributions may also be subject to a 10% federal (and, in some cases, state) penalty tax, payable when you file your tax return.

There is no 10% penalty tax if you:

- Roll over your distribution into an individual retirement account (IRA) or another employer's qualified plan
- Are totally and permanently disabled
- Terminate employment and are age 55 or older
- Die.

## **Ten-Year Averaging Rules**

Under the ten-year averaging rules, you can use the federal income tax rules and rates that applied before 1987 if you:

- Were born before 1936, and
- Received a distribution in 1987 or later. Your entire account balance must be paid:
  - Within a single taxable year,
  - From your account balance under this Plan and all other savings plans of Northrop Grumman Corporation,
  - When you are age 59½ or older, and
  - After you participate in the Plan for at least five taxable years before the taxable year in which you receive the distribution.

You can use the ten-year averaging method only once in your lifetime.

## **Important Note About Taxes**

This tax information is based on the federal tax laws in effect at the time of publication of this document in 2007. Keep in mind that:

- Tax law changes frequently
- The discussion of tax law in this guide does not cover state and local tax issues
- Northrop Grumman and the Plan Administrator may provide you general explanations of the tax rules that may apply to your situation, as provided in this SPD, but they cannot give you specific tax advice.

**You should consult your tax advisor for tax advice that directly applies to your situation.**

## **INVESTING IN THE AVONDALE 401(K) SAVINGS PLAN**

With the Avondale 401(k) Savings Plan, you can determine not only how much to save but also how that money is invested. The Plan gives you the flexibility to establish a savings and investment strategy that suits you. You can choose from among 17 investment options. *Note: These investment options may change from time to time without advance notice.*

### **Making Your Investment Selections**

All investment selections are made in 1% increments. The total must equal 100% of your interests in your account. For example, you may choose to invest 10% of your account in option one, 50% in option two, and 40% in option four. Effective January 1, 2008, if no investment direction exists, your account automatically is invested in one of the Target Life Path funds that most closely aligns with your projected retirement at age 65, until other instructions are received through the voice response system or <http://www.benefits.ml.com>.

Your initial direction as to the investment of your account is deemed a continuing direction and remains in effect until you change it. If you would like to reallocate (transfer) your existing funds or redirect your future contributions, you may contact the Merrill Lynch Retirement Service Center at **1-800-228-4015** or access your account via the Internet at <http://www.benefits.ml.com>. Your new election usually is effective at the end of the business day if it is requested via the voice response system before 3 p.m. Eastern Time; otherwise it is effective at the end of the next business day.

### **Fiduciary Investment Responsibility**

The Avondale 401(k) Savings Plan is intended to be the type of plan described in Section 404(c) of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and Title 29 of the Code of Federal Regulations Section 2550.404c-1. An ERISA Section 404(c) plan is one in which participants and beneficiaries bear responsibility for their investment decisions. The Plan's ERISA fiduciaries may be relieved of liability for any losses that are the direct and necessary result of investment instructions given by participants and beneficiaries.

### **Information You Must Receive**

As an ERISA Section 404(c) plan, the Avondale 401(k) Savings Plan must provide participants with the following information:

- A description of all the investment options available under the Plan and a general description of the investment objectives and risk and return characteristics of each of the investment options, including information pertaining to the type and diversification of assets comprising the portfolios of the investment options. Please refer to the "Basics of

Investing” and “Your Avondale 401(k) Savings Plan Investment Options” sections for more details

- The identity of any investment managers. The investment managers are listed on Merrill Lynch’s Web site. A list is also available by calling the Merrill Lynch Retirement Service Center at **1-800-228-4015**
- An explanation of when and how you may give investment instructions, including any limitations on those instructions or on your ability to exercise voting or other rights relating to an investment option
- A description of any transaction fees and other expenses affecting your Plan account balance. Please refer to the “Administrative Fees” section (under “General Plan Information”)
- The name, address, and telephone number of the Plan fiduciary responsible for providing information on request. Please refer to the “General Plan Information: Administration of the Plan” section for more details
- Following your initial investment in an investment option, a copy of the most recent prospectus and any materials provided to the Avondale 401(k) Savings Plan relating to the exercise of voting or other rights for that investment option.

### ***Information You May Request***

The Plan Administrator must provide the following information *on request*:

- A description for each investment option of the annual operating expenses, such as investment management fees, administrative fees and transaction costs, which reduce your rate of return
- Copies of any prospectuses, financial statements and reports, and any other materials relating to the investment alternatives available under the Plan, to the extent such information is provided to the Plan
- A list of the assets making up the portfolio of each investment option that are considered “plan assets” under ERISA, the value of each asset, and, for fixed-rate investment contracts issued by a bank or similar company, the name of the issuer of the contract, the term of the contract, and the rate of return on the contract
- Information concerning the value of shares in designated investment options, as well as the past and current investment performance of such options, determined, net of expenses, on a reasonable and consistent basis
- Information concerning the value of shares in designated investment options held in your account.

# **BASICS OF INVESTING**

## **Overview**

When deciding how to invest your Avondale 401(k) Savings Plan account, you need to understand some terms and fundamental concepts and terms related to investing, including diversification, tax-deferred compounding, and the benefits of saving regularly.

## **Diversification**

To help achieve long-term retirement security, you should give careful consideration to the benefits of a well-balanced and diversified investment portfolio. Spreading your assets among different types of investments can help you achieve a favorable rate of return, while minimizing your overall risk of losing money. This is because market or other economic conditions that cause one category of assets, or one particular security, to perform very well often cause another asset category, or another particular security, to perform poorly. If you invest more than 20% of your retirement savings in any one company or industry, your savings may not be properly diversified. Although diversification is not a guarantee against loss, it is an effective strategy to help you manage investment risk.

In deciding how to invest your retirement savings, you should take into account all of your assets, including any retirement savings outside of the Plan. No single approach is right for everyone because, among other factors, individuals have different financial goals, different time horizons for meeting their goals, and different tolerances for risk.

It is also important to periodically review your investment portfolio, your investment objectives, and the investment options under the Plan to help ensure that your retirement savings will meet your retirement goals.

## **Saving Regularly**

Saving regularly is one of the best ways to prepare for your financial future. By automatically investing in the Avondale 401(k) Savings Plan out of every paycheck, you literally “pay yourself first” — and you take advantage of employer matching contributions. Over time, even small amounts of money invested regularly can grow to significant retirement savings. In addition, automatic investment in the Plan means that you don’t have to worry about timing your purchases — that is, trying to buy low and sell high.

## **Tax-Deferred Compounding**

Compounding is the process whereby the interest earned on your original investment itself earns interest. Under the Plan, your investment earnings are reinvested and may also generate earnings. The Avondale 401(k) Savings Plan allows you to defer paying income

taxes on any earnings — including amounts earned on previous earnings — until you withdraw them. The combination of tax-deferred saving and reinvested earnings gives an added boost to your savings over the long term.

## Risk and Return

All investments involve some degree of risk. The value of some investments may grow significantly over the long term but may decline in the short term. Others will remain relatively stable in value over the long term and can be expected to grow at a much slower rate. In general, higher-risk investments, over time, have the potential to earn more than lower-risk investments. The trade-off, however, is that the value of riskier investments may rise and fall dramatically, especially in the short term. It is important to keep in mind that the Avondale 401(k) Savings Plan offers no investment guarantees.

## Asset Classes

Asset classes are categories of investments based on the types of securities that the fund holds and/or the investment philosophy that the fund managers follow. Each asset class has its own objective.

Asset Class	Objective
Capital preservation	Preserve the value of the initial investment, or principal.
Income	Provide income through bonds that pay interest.
Balanced	Provide growth and income through investments in both stocks and bonds.
Growth	Increase the share price by investing in stocks of companies that pay dividends and/or reinvest all or a portion of their profits for growth.

## Bonds

A bond is an obligation to repay a debt, issued by a government or corporation. If you invest in — or purchase — bonds, you in essence are lending money to the issuer who, in return, typically promises to make regular interest payments with full repayment on a specific date in the future (the maturity date).

Historically, bonds provide returns that are higher than returns on money market instruments (such as Treasury bills) but lower than returns on stocks. Please keep in mind, though, that although bonds offer the potential for higher returns than do short-term instruments, there is more risk associated with bonds because of the chance of default (credit risk), interest rate fluctuations (market risk), and early repayment of principal (prepayment risk).

Moody's and Standard & Poor's (S&P) are investment services that rate bonds for quality and dependability. Their rating systems are similar but not identical. This chart provides help in understanding the ratings.

Moody's	S&P	Meaning
Aaa	AAA	Bonds of the best quality, offering the lowest degree of investment risk. Issuers are exceptionally stable and dependable.
Aa	AA	Bonds of high quality by all standards. Slightly higher degree of long-term investment risk.
A	A	Bonds with many favorable investment attributes.
Baa	BBB	Bonds of medium-grade quality. Security appears adequate at present, but may be unreliable over the long term.
Ba	BB	Bonds with speculative elements. Moderate security of payments; not well safeguarded.
B	B	Assurance of interest and principal payments may be small.
Caa	CCC	Bonds of poor standing. Issuers may be in default or in danger of default.
Ca	CC	Bonds of highly speculative quality; often in default.
C	C	Lowest-rated class of bonds. Very poor prospects of ever attaining investment standing.
—	D	In default.

## Stocks

Stocks represent shares of ownership in a company. When you buy stock in a company, you become a part owner of that company.

Long-term investments in stocks historically provide higher returns than the returns on other types of investments, such as short-term Treasuries and bonds. However, there is more risk associated with an investment in stocks, particularly in the short term with fluctuations in the stock market.

International stocks are subject to additional risks, such as:

- Currency fluctuations (currency risk)
- Political or social instability (political risk)
- Less stringent accounting and reporting standards (lack of transparency)
- Possible lack of immediate marketability (liquidity risk).

You might consider a stock fund if you are willing to endure short-term fluctuations in value in exchange for the possibility of higher investment returns over the long run.

## **Passively Managed vs. Actively Managed Funds**

A passively managed fund seeks to match the performance of a specific index by investing in the securities that make up that index, in the same proportions.

An actively managed fund seeks to perform better than a particular index or benchmark.

The fund manager does this by:

- Not investing in certain securities in the index
- Investing in securities that the manager considers better than, although similar to, those in the index
- Investing in the same securities as those in the index, but in different proportions.

In general, an actively managed fund has a higher risk and reward potential than a passively managed fund.

## YOUR AVONDALE 401(K) SAVINGS PLAN INVESTMENT OPTIONS

The Avondale 401(k) Savings Plan offers several core investment fund options and, beginning January 2, 2008, will offer five “target date” investment options.

### Core Investment Funds

The core investment funds are managed by independent professional investment managers appointed by the Avondale 401(k) Savings Plan Investment Committee. However, it is up to you to choose and monitor the appropriate fund investments for your personal situation and retirement strategy.

Fund Name	Lipper Classification	Objective	Symbol
Merrill Lynch Retirement Preservation Trust	N/A	Capital Preservation	N/A
BlackRock Bond Fund (Class I)	Intermediate Investment Grade Debt Funds	Income	MAHQX
BlackRock Balanced Capital Fund (Class I)	Mixed Asset Target Allocation Growth Funds	Growth and Income	MACPX
AIM Constellation Fund (Class A)	Multi Cap Growth Funds	Growth	CSTGX
Allianz OCC Renaissance Fund (Class A) (available only until January 2, 2008)	Multi Cap Core Funds	Growth	PQNAX
BlackRock Aurora Portfolio (Class A)	Small Cap Core Funds	Growth	SSRAX
Columbia Mid Cap Value Fund (available beginning January 2, 2008)	Multi Cap Core Funds	Growth	CMUAX
Davis New York Venture Fund Incorporated	Large Cap Core Funds	Growth	NYVTX
Franklin Small-Mid Cap Growth Fund (Class A)	Mid Cap Growth Funds	Growth	FRSGX
Merrill Lynch Equity Trust*	S&P 500 Index	Growth	N/A
Oppenheimer Capital Appreciation Fund (Class A)	Growth Funds Large Cap	Growth	OPTFX
Oppenheimer International Growth Fund (Class A)	International Multi Cap Growth Funds	Growth	OIGAX
Templeton Growth Fund (Class A)	Global Large Cap Value Funds	Growth	TEPLX

\* This is a collective trust.

The following fund descriptions were provided by Merrill Lynch. Up-to-date fund descriptions are available online at <http://www.benefits.ml.com>. Please keep in mind:

- Investments in foreign securities involve special risks, including foreign currency risk and the possibility of substantial volatility due to adverse political, economic, or other factors
- Because small-capitalization stocks have experienced greater market volatility than have large-capitalization stocks, investors should bear in mind that the higher return potential of small-capitalization stocks is accompanied by higher risk.

### ***Merrill Lynch Retirement Preservation Trust***

The Merrill Lynch Retirement Preservation Trust seeks to provide preservation of participants' investments, liquidity and current income that is typically higher than money market funds. The Trust is a collective trust maintained by Merrill Lynch Bank USA, to which Merrill Lynch Asset Management, L.P. (MLAM) provides nondiscretionary investment advice.

Merrill Lynch Retirement Preservation Trust invests primarily in a broadly diversified portfolio of Guaranteed Investment Contracts (GICs, including Bank Investment Controls [BICs], synthetic GICs and separate accounts) as well as in obligations of U.S. government and U.S. government agency securities. The Trust also invests in high-quality money market securities. Participants purchase units that the Trust seeks to maintain at \$1 per unit, although this cannot be assured. Income is declared and reinvested each day. (Although the Trust purchases GICs, neither the Trust nor its units is guaranteed.)

GICs are contracts through which an issuer — generally an insurance company or bank — agrees to return the original investment plus a stated rate of return after a specific period of time. When a GIC is issued by a bank, it is sometimes called a BIC. Synthetic GICs are issued by banks, the largest insurers and financial service companies. The investor owns the underlying investments. The Trust's management believes there are several benefits to synthetic GICs. First, synthetic GICs provide the investor with a stronger and more direct credit claim on the underlying assets of each GIC. Second, the ability to choose specific assets allows an investor to impose clear credit standards. Finally, underlying assets may be chosen which meet the particular cash-flow characteristics and expected maturities of the overall portfolio.

### ***BlackRock Bond Fund***

The BlackRock Bond Fund seeks a high level of current income. As a secondary objective, the Fund seeks capital appreciation when consistent with its primary objective. The Fund invests primarily in investment grade fixed-income securities of any maturity. The Fund is appropriate for investors who desire the additional fund diversification provided by fixed-income investments.

### ***BlackRock Balanced Capital Fund***

The BlackRock Balanced Capital Fund seeks the highest total investment return through a fully managed investment policy utilizing equity, debt (including money market) and convertible securities.

The Fund invests in equities and debt securities (including short-term securities). Fund management shifts the allocation among these securities types. The Fund will always invest at least 25% of total assets in fixed income securities. The Fund is appropriate for investors who wish to reduce the overall risk to their principal value by investing in more than one asset class.

### ***AIM Constellation Fund (Class A)***

The AIM Constellation Fund seeks growth of capital. The Fund invests principally in common stocks of companies the portfolio managers believe are likely to benefit from new or innovative products, services or processes as well as those that have experienced above-average, long-term growth in earnings and have excellent prospects for future growth. The Fund will invest without regard to market capitalization and may also invest a portion of its total assets in foreign securities. The Fund is appropriate for long-term investors who are willing to accept changes in the value of their investments due to the regular fluctuations of stock prices.

### ***Allianz OCC Renaissance Fund (Class A) (available only until January 2, 2008)***

The Allianz OCC Renaissance Fund seeks long-term growth of capital and income. The Fund will invest at least 65% of its total assets in common stocks and other equity securities having below-average valuations whose issuers are experiencing improvements in their business fundamentals. The Fund may invest a portion of its assets in securities of foreign securities traded in foreign securities markets (not including Eurodollar certificates of deposit), which will not exceed 15% of the Fund's total assets at the time of investment. The value of the Fund's portfolio will be affected by changes in the stock markets. At times, the stock markets can be volatile and stock prices can change substantially. This market risk will affect the Fund's net asset value per share, which will fluctuate with changes in the value of the Fund's portfolio securities.

### ***BlackRock Aurora Portfolio (Class A)***

The BlackRock Aurora Portfolio seeks a high total return, consisting principally of capital appreciation. The Fund ordinarily invests at least 65%<sup>4</sup> of its total assets in small-company value stocks. The Fund generally expects that most of these stocks will not be larger than the stocks of the largest companies in the Russell 2000<sup>®</sup> Index. Fund management takes a value

---

<sup>4</sup> Subject to change. For more information, visit Merrill Lynch's Web site at <http://www.benefits.ml.com>.

approach, searching for those companies that appear to be trading below their true worth. The Fund reserves the right to invest up to 35% of its total assets in other securities. These may include other types of stocks, such as larger-company stocks or growth stocks. Up to 35% of the Fund's total assets may be invested in the securities of foreign issuers. The Fund may also buy or sell certain "derivative" instruments, contracts or options for the purpose of hedging or speculation, when advisable and consistent with the Fund's investment objective, subject to certain limitations. Such hedging strategies involve special risks. In addition, there is no guarantee that the hedging strategies used by the Fund will be successful. The value of the Fund's portfolio will be affected by changes in the stock markets. At times, the stock markets can be volatile and stock prices can change substantially. This market risk will affect the Fund's net asset value per share, which will fluctuate with changes in the value of the Fund's portfolio securities.

***Columbia Mid Cap Value Fund (available beginning January 2, 2008)***

The Fund seeks long-term capital appreciation. The Fund invests primarily in equity securities of U.S. companies whose market capitalizations are within the range of the Russell Midcap Value Index at time of purchase. The Fund may also invest in foreign securities and real estate investment trusts. The Fund may be appropriate for long-term investors who are willing to accept the increased volatility associated with stocks of medium-capitalization companies. Historically, this Fund has invested in mid-capitalization companies. Because mid-capitalization stock prices have experienced a greater degree of market volatility than large-capitalization stock prices, investors should consider the Fund for long-term investment and should bear in mind that the higher return potential of mid-capitalization stocks is accompanied by additional business risk, significant stock price fluctuations and illiquidity.

***Davis New York Venture Fund Incorporated***

The Davis New York Venture Fund seeks growth of capital. The Fund invests primarily in common stocks. Predominantly, the Fund invests in equity securities of companies with market capitalizations of at least \$250 million<sup>4</sup>, although it can invest in issues of smaller-capitalization companies. The value of the Fund's portfolio will be affected by changes in the stock markets. At times, the stock markets can be volatile and stock prices can change substantially. This market risk will affect the Fund's net asset value per share, which will fluctuate with changes in the value of the Fund's portfolio securities. Investments will consist of issues which Fund management believes have capital growth potential due to factors such as undervalued assets or earnings potential, product development and demand, favorable operating ratios, resources for expansion, management abilities, reasonableness of market price and favorable overall business prospects. The Fund may also invest in securities of foreign issuers or securities which are principally traded in foreign markets. The Fund may buy or sell certain "derivative" instruments, contracts or options for the purpose of hedging, consistent with the Fund's investment objective and subject to certain limitations. Such

---

<sup>4</sup> Subject to change. For more information, visit Merrill Lynch's Web site at <http://www.benefits.ml.com>.

hedging strategies involve special risks. In addition, there is no guarantee that the hedging strategies used by the Fund will be successful. To attempt to reduce exposure to currency fluctuations, the Fund may trade in forward foreign currency exchange contracts, currency futures contracts and options thereon, and securities indexed to foreign securities.

### ***Franklin Small-Mid Cap Growth Fund (Class A)***

The Franklin Small-Mid Cap Growth Fund seeks long-term capital growth. Under normal market conditions, the Fund invests at least 65%<sup>4</sup> of its total assets in the equity securities of small-capitalization growth companies. The Fund seeks to invest at least one-third of its total assets in companies with market capitalizations of \$550 million or less.<sup>4</sup> The Fund may invest up to 35% of its total assets, in the aggregate, in equity securities of large-capitalization companies which Fund management believes have strong growth potential; are relatively well-known, larger companies in mature industries which Fund management believes have the potential for capital appreciation; or in corporate debt securities, including bonds, notes and debentures. The value of the Fund's portfolio will be affected by changes in the stock markets. At times, the stock markets can be volatile and stock prices can change substantially. This market risk will affect the Fund's net asset value per share, which will fluctuate with changes in the value of the Fund's portfolio securities. The Fund may also invest in fixed-income securities. In addition, the Fund may invest no more than 25% of its total assets in foreign securities, including those of developing or underdeveloped markets and sponsored or unsponsored American Depositary Receipts.

### ***Merrill Lynch Equity Index Trust***

The Merrill Lynch Equity Index Trust is a collective Trust maintained by Merrill Lynch Bank USA. BlackRock Investment Management LLC provides nondiscretionary investment advice to Merrill Lynch Bank USA. The Trust seeks to provide investment results that, before expenses, replicate the total return of the Standard & Poor's 500 composite Stock Price Index (S&P 500 Index). This index is a means to measure the performance of a broad base of large U.S. corporations. The Trust invests primarily in a portfolio of equity securities (stocks) designed to substantially equal or "match" the performance of the S&P 500 Index, before expenses. The percentage of the Trust's interest in each stock will generally be the same as the percentage that a particular stock represents in the S&P 500 Index. However, certain factors may make the purchase of some stocks impracticable or unnecessary.

### ***Oppenheimer Capital Appreciation Fund (Class A)***

The Oppenheimer Capital Appreciation Fund seeks capital appreciation. The Fund invests mainly in the common stocks of growth companies. These may be newer companies or established companies of any capitalization range that the portfolio manager believes may appreciate in value over the long term. The Fund currently focuses mainly on mid-cap and

large-cap domestic companies, but buys foreign stocks as well. The Fund is appropriate for long-term investors who are willing to accept the increased volatility associated with stocks of medium-capitalization companies.

### ***Oppenheimer International Growth Fund (Class A)***

The Oppenheimer International Growth Fund seeks capital appreciation. The Fund ordinarily invests at least 65%<sup>4</sup> of its total assets in foreign common and preferred stocks of “growth-type” companies (of varying market capitalizations) located in at least three different countries other than the U.S. The Fund may invest up to 100% of its total assets in foreign securities. “Growth-type” companies are those that Fund management believes are entering a growth cycle in their business, with the expectation that their stock may increase in value. In making this determination, Fund management considers factors such as the development of new products or markets, improved sales, technological developments, potential benefit from changing consumer demands or lifestyles, above-average projections for growth in earnings, and other factors. The Fund may buy and sell certain “derivative” instruments, contracts or options for the purpose of hedging, when advisable and consistent with the Fund’s investment objective, subject to certain limitations. Such hedging strategies involve special risks. In addition, there is no guarantee that the hedging strategies used by the Fund will be successful.

### ***Templeton Growth Fund***

The Templeton Growth Fund seeks long-term capital growth. The Fund seeks to achieve its objective through a flexible policy of investing in the equity and debt securities of companies and governments of any nation. The Fund may also invest in preferred stocks and certain debt obligations, rated or unrated. The Fund may invest no more than 5% of its total assets in securities issued by any one company or foreign government, exclusive of U.S. government securities.

### **Target Date Funds (available beginning January 2, 2008)**

When you save for retirement, how you invest your account at age 30 might be very different than how you invest your account at age 60. After all, if retirement is many years away, your emphasis might be on building assets over time. But as you move closer to retirement, your emphasis may shift gradually to preserving the assets you have.

Managing that process — gradually shifting to a more conservative investment approach over time — is what the Target Date Funds can do for you. Each fund is managed to a specific target year, and is adjusted automatically along the way to become more

---

<sup>4</sup> Subject to change. For more information, visit Merrill Lynch’s Web site at <http://www.benefits.ml.com>.

conservative (i.e., a higher percentage of assets in bonds and cash; a lower percentage in stocks) as the targeted date approaches.

The funds with the dates furthest in the future have the most aggressive mix of stocks, bonds and cash equivalents. If you believe that one of these funds might be appropriate for you, pick your date – when you think you might retire or need your money – and consider the fund with a title closest to that time horizon. In addition, if you prefer to take a more conservative (or more aggressive) investment approach than your time horizon would suggest, you might consider a fund with a title that precedes (or follows) your expected retirement date.

These funds are managed by Barclay Global Investors. Here are the funds that will be available in the Plan, the anticipated retirement date they’re targeted toward, and their symbols.

<b>Barclay Global Investors Fund</b>	<b>Anticipated Retirement Dates</b>	<b>Symbol</b>
LifePath Retirement Income Fund (Class R) <sup>®</sup>	Currently in, or close to, retirement	LPRAX
LifePath 2010 Fund (Class R) <sup>®</sup>	2008 to 2015	LPRBX
LifePath 2020 Fund (Class R) <sup>®</sup>	2016 to 2025	LPRCX
LifePath 2030 Fund (Class R) <sup>®</sup>	2026 to 2035	LPRDX
LifePath 2040 Fund (Class R) <sup>®</sup>	2036 to 2045	LPREX

More information about these funds, including their prospectuses, will be available at <http://www.benefits.ml.com> beginning January 2, 2008.

## **GENERAL PLAN INFORMATION**

### **Administrative Fees**

Merrill Lynch's recordkeeping charges are paid by your employer. However, charges imposed in connection with each investment fund are deducted by Merrill Lynch before investment earnings (or losses) are credited to your accounts. A fund's prospectus discusses any additional expenses that affect its rate of return. If you obtain a loan, you are charged a \$40 loan setup fee and a \$15 loan distribution fee.

Northrop Grumman pays Merrill Lynch's recordkeeping expenses. However, the Plan pays other expenses and fees for services such as investment management (and other charges described in any prospectuses for the investment funds), trusteeship, custodianship, brokerage, investment research, legal, accounting, auditing, consulting on Plan investments and administration, recordkeeping, government reporting, employee communications and assistance, bonding and other insurance, loans, personnel training, travel, mail, courier, telephone and other communications, and computer programming and processing. Such fees for services may include amounts for products delivered or used in connection with the delivery of services, such as office supplies and computer hardware and software. The fees are paid to the service providers, which may include Northrop Grumman and its affiliates.

Northrop Grumman may, from time to time, choose to pay some of these Plan expenses, but has no obligation to do so.

### **Future of the Plan**

Northrop Grumman reserves the right to suspend, reduce, or discontinue contributions. It also may amend, modify, merge, or terminate the Plan, subject to collective bargaining agreements. In addition, it can transfer assets and liabilities to any other plan.

In addition, the operation of the Plan is conducted pursuant to the rules of the Plan Administrator and its delegates. These rules may be changed from time to time without advance notice to participants.

### **Plan Assets**

All assets of the Plan are held in a trust. Plan assets are held for the exclusive benefit of Plan participants. All benefit payments are made directly from the trust fund.

## **Pension Benefit Guaranty Corporation (PBGC)**

Benefits under this Plan are not guaranteed by the Pension Benefit Guaranty Corporation (PBGC) because the Plan is a defined contribution plan not subject to coverage by the PBGC.

## **Top Heavy Rules**

Certain tax rules — called “top heavy” rules — apply if the value of benefits payable to certain key employees under the Plan exceeds 60% of the total benefits to all other employees under the Plan. If these rules apply, the Plan must be modified to maintain its status as a tax-qualified plan. The Plan Administrator will notify you if your benefits are affected by top heavy rules.

## **Assignment of Benefits**

Your benefits belong to you and, except in the case of a qualified domestic relations order (QDRO), Internal Revenue Service (IRS) levy, or garnishment orders under the Federal Debt Collection Procedures Act or the Mandatory Victims Restitution Act, may not be sold, assigned, transferred, pledged, or garnished.

## **Payment of Benefits to Alternate Payees**

The Employee Retirement Income Security Act (ERISA) requires the Plan Administrator to obey qualified domestic relations orders, or QDROs. A QDRO is a legal judgment, decree, or order that recognizes the rights of someone other than the Plan participant (namely, an alternate payee) under the Plan with respect to child or other dependent support, alimony, or marital property rights.

If you become legally separated or divorced, a portion of your benefits under the Avondale 401(k) Savings Plan may be assigned to someone else to satisfy a legal obligation you may have to a spouse, former spouse, child, or other dependent. These payments may begin while you still are employed.

There are specific requirements that a QDRO must meet to be accepted by the Plan Administrator. In addition, there are specific procedures regarding the amount and timing of payments. If you are affected by such an order, contact the QDRO Administrator (identified in the section “General Plan Information: Administration of the Plan”) to request a free copy of the Plan’s QDRO procedures and a model QDRO for your use. Issues involving the qualified status of a domestic relations order may be pursued in federal court.

## **Unclaimed Benefits**

A delay in applying for benefits may cause a delay in your payment. If you move and do not notify the Plan Administrator of your new address, your benefit payment may be delayed until the Plan Administrator locates you. Likewise, you should notify the Plan Administrator when your beneficiary moves and his or her address changes.

If the Plan Administrator cannot locate you for a specified period of time, you may forfeit your benefits to a state government. If this is the case, you must apply to the state to receive your benefit.

## **Incapacity of Participant or Beneficiary**

If you, your alternate payee or, at your death, your beneficiary is deemed to be physically or mentally incompetent or otherwise incapable of receiving a payment for any reason, the Plan Administrator, at its discretion, may pay your benefits to a legal guardian or other person or institution that the Administrative Committee designates. This will be deemed to fully satisfy the Plan's debt to you, the alternate payee, or your beneficiary.

## **Your ERISA Rights**

In 1974, Congress passed the Employee Retirement Income Security Act of 1974 (ERISA) to safeguard the interests of participants and beneficiaries under employee benefit plans. As a participant in the Avondale 401(k) Savings Plan, you are entitled to certain rights and protections under ERISA.

### ***Your Rights To Receive Information About Your Plan and Benefits***

ERISA provides that all Plan participants are entitled to:

- Examine, without charge, at the Plan Administrator's office and at other specified locations, such as worksites and union halls, all documents governing the Plan, including insurance contracts and collective bargaining agreements, and a copy of the latest annual report (Form 5500 series) filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration
- Obtain, on written request to the Plan Administrator, copies of documents governing the operation of the Plan, including insurance contracts and collective bargaining agreements, and copies of the latest annual report (Form 5500 series) and updated SPD. The Plan Administrator may make a reasonable charge for the copies
- Receive a summary of the Plan's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report
- Obtain a statement of the current value of their accounts under the Plan, showing the nonforfeitable (vested) portion (if any), or the earliest date on which their accounts will

become nonforfeitable (vested). This statement must be requested in writing and does not have to be given more than once every 12 months. The Plan must provide the statement free of charge.

### ***Prudent Actions by Plan Fiduciaries***

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

### ***Enforcing Your Rights***

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

Under ERISA, there are steps you can take to enforce your rights. For instance, if you request a copy of the plan document or the latest annual report from the Plan and do not receive it within 30 days, you may file suit in federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to \$110 a day until you receive them, unless they were not sent for reasons beyond the control of the Plan Administrator. If you have a claim for benefits that is denied or ignored, in whole or in part, you may file suit in state or federal court. In addition, if you disagree with the decision or lack thereof concerning the qualified status of a QDRO, you may file suit in federal court. If it should happen that Plan fiduciaries misuse the Plan’s money, or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees if, for example, it finds your claim is frivolous.

### ***Assistance With Your Questions***

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

rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

## **How To Claim Benefits**

If you believe you are entitled to a benefit under the Plan that is not provided to you, you must file written notice with the Plan Administrator to claim your benefits within one year of the incident for which you wish to make a claim, and it is your responsibility to prove that your claim is valid. In other words, you bear the burden of proving your claim. You will receive notice of the Plan Administrator's decision on your claim for benefits generally within 90 days after the Plan Administrator receives your claim. The Plan Administrator will authorize payment to a claimant only if it determines, in its discretion, that the claimant is entitled to the benefits.

If your claim is denied, either in whole or in part, you will receive written notice explaining the reasons along with references to the Plan provisions on which the denial is based. The notice will state what additional information may be needed, if any, to process your claim. The notice also will outline the procedures you must follow to have your claim reviewed.

If you disagree with the Plan Administrator's decision regarding your benefit claim, you have 65 days from the receipt of the original denial to request a review. This request should be made in writing and sent to the Plan Administrator at the following address:

Avondale 401(k) Savings Plan Administrative Committee  
Northrop Grumman Corporation  
1840 Century Park East  
Los Angeles, California 90067

Your request should state all the grounds on which your request for a review is based. You should state any facts, address any issues, and include any documents or records that support your request. Besides having the right to appeal, on request, you or your authorized representative may request reasonable access to all documents, records, and other information relevant to your claim, free of charge.

The claim appeal will be reviewed by the Plan Administrator and ordinarily you will be notified of a decision within 60 days of the date the Plan Administrator receives the request for review. On review, the Plan Administrator will authorize payment to a claimant only if it determines, in its discretion, that the claimant is entitled to the benefits.

The final decision will be sent to you in writing, explaining the specific reasons for the decision along with references to the Plan provisions on which the denial is based. As before, you will be entitled to receive, on request and free of charge, reasonable access to

and copies of all documents, records, and other information relevant to the claim. The decision of the Plan Administrator is final and conclusive.

If your claim appeal is denied, you may bring legal action in court provided you abide by certain time limits. Specifically, you may not bring legal action against a party under the Plan after the latest of:

- One year from the date the claim arises
- 90 days from final disposition of the claim by the Administrative Committee.

In addition, the action must be filed before the time limit described above and any otherwise applicable statute of limitations expires, whichever comes first. You must exhaust any and all administrative procedures set forth under the Plan before seeking relief in a court of law. Except where ERISA applies, the Plan is construed in accordance with the laws of the State of Louisiana.

### **Administration of the Plan**

The Plan Administrator is a committee of three or more people appointed by the Board of Directors of Northrop Grumman Ship Systems Avondale Operations. The Plan Administrator is responsible for making the rules under which the Plan is operated and administered, and for administering the Plan pursuant to such rules. The Plan Administrator may delegate certain of its responsibilities to officers, employees, and professional administrators. The Plan Administrator directs the trustee concerning all payments to be made out of the trust fund pursuant to the provisions of the Plan.

To the fullest extent permitted by law, the Plan Administrator will have the exclusive discretion to determine all matters relating to eligibility, coverage and benefits under the law. The Plan Administrator will also have the exclusive discretion to determine all matters relating to interpretation and operation of the Plan.

Any interpretation of the provisions of the Plan by the Plan Administrator is final and conclusive.

Northrop Grumman, the Plan Administrator, and the Plan are not responsible for any losses that result from delays or other events that are beyond the reasonable control of the Plan Administrator or are necessary to maintain the financial integrity of the Plan. The Plan Administrator and its agents will attempt to process all transactions — such as enrollments, investment contributions and transfers, and distribution requests — within the specified time limits. However, events may occur that prevent them from doing so. Any delayed transactions will be processed as soon as administratively possible.

The Plan Investment Committee oversees the Plan's investment funds. This committee is separate from the Administrative Committee and its members are appointed by the Board of Directors of Northrop Grumman Ship Systems, Inc.

The name of your Plan is:	Avondale Industries, Inc. 401(k) Savings Plan
The Employer and Plan Sponsor is:	Northrop Grumman Ship Systems, Inc. Avondale Operations P.O. Box 50280 New Orleans, LA 70150  Street Address: 5100 River Road Avondale, LA 70094
Participating Employers:	Northrop Grumman Ship Systems, Inc. Avondale Operations
The Plan's fiscal year (the "plan year") is:	The calendar year
The valuation date is:	All accounts are valued daily. The "annual valuation date" is December 31.
The Plan's ERISA number is:	015
The Employer's (Plan Sponsor's) taxpayer I.D. number is:	94-3041767
The Plan Administrator is:	Avondale 401(k) Savings Plan Administrative Committee  Northrop Grumman Corporation 1840 Century Park East Los Angeles, CA 90067 <b>1-800-228-4015</b>
The QDRO Administrator is:	Northrop Grumman Domestic Relations Group 270 Davidson Ave. Somerset, NJ 08873
The Agent for service of process is:  Note: Service of legal process may be made on the trustee or Plan Administrator	Avondale 401(k) Savings Plan Administrative Committee c/o Corporate Secretary Northrop Grumman Corporation 1840 Century Park East Los Angeles, CA 90067
Benefits and Plan expenses are paid from the trust maintained by the Plan with the trustee. The Plan's trustee is:	Merrill Lynch Trust Company 300 Davidson Avenue Location 2 West Somerset, NJ 08873

This SPD reflects the text of the Plan in effect as of January 1, 2008.

### **Plan Documents**

This SPD is a summary of the main features of the Plan. It is provided to you as required by law. However, this is not the official plan document and neither the plan document nor this SPD constitutes an implied or expressed contract or guarantee of employment.

The official plan document and trust agreement govern the operation of the Plan and payment of all benefits. In the event of any ambiguity or omission in this SPD, or any conflict between this SPD and the official plan document and trust agreement, the official plan document and trust agreement govern.

You can obtain a copy of the plan document and trust agreement by contacting the Plan Administrator.

### **Plan Rules**

This SPD describes the Plan's typical and customary operations. Unusual activity, delays, or other events may occur from time to time. In such cases, the Plan Administrator and its delegates are empowered to take steps they deem necessary or appropriate to maintain the Plan's financial integrity or otherwise protect the Plan and participants. In such an event, the deadlines, rules, and representations in this SPD may be adjusted.

## GLOSSARY

**Beneficiary** — A person whom you designate to receive your Avondale 401(k) Savings Plan account balance when you die. You may have more than one beneficiary, and your beneficiary can be a person, a trust, or your estate. You can name your beneficiary(ies) on Merrill Lynch's Web site at [www.benefits.ml.com](http://www.benefits.ml.com).

**Bond** — An obligation to repay a debt, which can be issued by governments or corporations. If you invest in — or purchase — bonds, you lend money to the issuer who, in return, typically promises to make regular interest payments with full repayment on a specific date in the future (at maturity).

**Bond rating** — An independent measure of a bond issuer's ability to repay the principal in full, plus accrued interest, on a specific date in the future as established by the bond contract. Major bond rating agencies are Standard & Poor's and Moody's Inc.

**Break in service** — The period of time that begins on the date your employment is terminated and ends on the date of your reemployment. In general, a one-year break in service means an employment year in which you fail to be credited with at least 501 hours of service.

**Business day** — Any day on which the New York Stock Exchange is open for trading. The value of your Plan account is usually updated each business day.

**Capital appreciation/depreciation** — A gain in the market price of an investment from the time you purchase it to the time you sell it is capital appreciation. A decrease in the market price is capital depreciation.

**Cash equivalents** — Very high-quality securities that mature in three months or less and are liquid (easily converted into cash).

**Catch-up contributions provision** — A provision that allows eligible participants (those who will be age 50 and older by the end of the year) who made the maximum allowable tax-deferred contribution for the year to make an additional tax-deferred contribution. Catch-up contributions do not count toward the plan's contribution limit or the limit on combined contributions (from you and Northrop Grumman, which is \$46,000 for 2008).

**Common stock** — Ownership in a corporation. The type of stock most investors hold is "common stock."

**Company** — Northrop Grumman Corporation and its affiliates.

**Credit risk** — The risk that a bond issuer (typically a corporation or government) will default on loan repayments. Small companies without significant earnings histories, companies that defaulted on loans in the past, and companies that are not financially strong have greater credit risk than well-established companies with solid histories of earnings.

**Currency risk** — The risk that a currency will lose value, which in turn may cause you to lose money on an investment. (This risk is generally associated with investments in the stocks or bonds of companies or governments outside the U.S.)

**Date of reemployment** — The date on which you return to work and perform your first hour of service after experiencing a break in service.

**Debt instrument** — Another term for “bond.”

**Developed market** — A major, industrialized nation whose markets often are perceived to be mature and stable. The United States, Japan, and many western European nations are considered to be developed markets.

**Diversification** — The spreading or lowering of risk by investment in many different types of investments.

**Dividend** — The portion of a company’s profits paid to shareholders as current income. Stocks of companies with a consistent history of paying high dividends are known as “income stocks.” The stocks of companies that usually pay small or no dividends, preferring to reinvest most of their profits to grow their business, are called “growth stocks.”

**Eligible compensation** — The amount of your compensation on which contributions to the Plan are based. Your eligible compensation generally is defined as your base pay plus overtime, bonuses, short-term disability paid by the Company, contributions made under this Plan, and elective contributions made on your behalf to a cafeteria plan. Any other compensation paid during the Plan year is not included. For a complete list of specific payroll elements that are included in this definition, review the plan document.

**Emerging market** — Typically a group of companies and/or governments in countries that have the potential for rapid growth and that are moving toward free-market policies. Emerging markets are in various stages of economic development and often enjoy a competitive advantage in certain key industries. Eastern Europe, Asia, Latin America, Africa, and the Middle East are considered to include emerging markets.

**Employee Retirement Income Security Act (ERISA)** — A federal law that protects the rights of benefit plan participants and beneficiaries.

**Employer discretionary contributions** — Contributions from Northrop Grumman that are made on a discretionary basis. Discretionary contributions, if any, are allocated as of December 31.

**Employer matching contributions** — Contributions from Northrop Grumman that are based on the percentage of eligible compensation that participants contribute to the Plan.

**Employment year** — The 12-month period of employment beginning on January 1 of the calendar year in which you perform your first hour of service for a participating employer.

**Equity** — Ownership, usually in the form of stock.

**Fiduciary** — An individual or entity with discretionary authority over the Plan’s operation or administration. A fiduciary must use sound judgment in the interest of all Plan participants and beneficiaries. Fiduciaries may include investment advisors, trustees, and certain others.

**Fixed-income securities** — Investments that pay an established rate of return for a specific period. Bonds and insurance contracts are examples of longer-term, fixed-income securities. Money market funds and certificates of deposit (CDs) are examples of short-term, fixed-income securities.

**Future contributions** — Contributions that you elect to have deducted from your future paychecks and contributions that Northrop Grumman will make to your account in the future.

**Futures contract** — A contract that requires the exchange of an asset at a specified price on a specified date in the future.

**Growth** — An increase in the value of an investment.

**Guaranteed Investment Contract (GIC)** — A contract under which money (principal) is invested with an insurance company or other financial institution. The financial institution promises to repay the principal in full plus accrued interest on a specific date in the future, typically after one to five years. The term “guaranteed” refers only to the issuer’s promise to repay, not to any type of government or other guarantee.

**Hour of service** — Generally, an hour during which you perform service for Northrop Grumman (including affiliates that are in the “controlled group”) for which you are paid, both while on the job and while temporarily off the job for reasons such as vacation, holiday, illness, jury duty, and leave of absence, including leave for your pregnancy, birth or adoption of your child, care of your child immediately following birth or adoption, any paid period of leave recognized under the Family and Medical Leave Act of 1993 (FMLA), and military leave recognized under USERRA.

**Income** — The flow of money to an investor, typically through dividends or interest payments.

**Index** — A group of securities structured to represent a market or asset class for performance measurement purposes.

**In-service withdrawal** — A type of withdrawal that you can request while you are an active employee. The Plan permits two types of in-service withdrawals: age 59½ withdrawals and hardship withdrawals.

**Interest** — The amount a borrower pays to a lender for the use of the lender's money.

**Investment Committee** — The committee responsible for overseeing the Plan's investment funds and the trustee. Investment Committee members are appointed by the Board of Directors of Avondale Industries, Inc.

**Investment horizon** — The period during which you plan to keep your money invested. A short investment horizon is considered to be less than three years, a moderate investment horizon is considered to be three to ten years, and a long investment horizon is considered to be ten years or more.

**Investor** — An individual who typically has a long-term investment horizon and can select instruments that offer higher returns (and associated higher risk) over time. An investor is generally more comfortable with short-term market fluctuations, with the expectation that a long-term investment horizon historically tends to absorb these fluctuations and provide higher returns.

**Liquidity** — The ability to be easily converted into cash; refers generally to a security or other asset.

**Liquidity risk** — The risk that an asset (e.g., securities) cannot easily be converted into cash, which can lead to investment losses. Small capitalization stocks and stocks of companies in developing markets have limited marketability, which can make them difficult to sell — particularly during periods of economic uncertainty. For that reason, such stocks are considered to carry more liquidity risk than the stocks of larger companies in developed markets.

**Lump sum payment** — The payment of your entire 401(k) Savings Plan account balance. You may request a lump sum payment when your employment with Northrop Grumman Corporation ends.

**Market capitalization** — The total value of a company's stock held by shareholders (based on the current market price per share), determined by multiplying the current price per share by the total number of shares outstanding.

**Maturity date** — The date on which the principal amount of a bond becomes due and the issuer must repay it in full.

**Merrill Lynch Retirement Service Center** — An interactive voice response system that gives you direct access to information about your account. You can call the Service Center toll-free at **1-800-228-4015**. You can also access your account via the Internet at <http://www.benefits.ml.com>.

**Money market instruments** — Short-term debt instruments, such as certificates of deposit (CDs), Treasury bills, commercial paper, and other very liquid, low-risk investments.

**Mutual fund** — A pool of stocks, bonds, and/or other securities purchased and managed by professional investment managers.

**Option** — A contract that gives the owner the right (not the obligation) to make a future transaction in an underlying asset, at a specified price, within a predetermined time frame.

**Plan Administrator** — The Administrative Committee, which is appointed by Northrop Grumman to administer certain aspects of the Plan. The Plan Administrator may delegate or assign its responsibilities and authority in accordance with the Plan.

**Political risk** — The risk that an investment will lose money due to political factors, such as turnover in a country's leadership.

**Portfolio** — A group of investments assembled to achieve a financial goal.

**Prepayment risk** — The risk that a bond issuer (typically a corporation or government) will repay the principal earlier than scheduled, which can reduce the amount of interest bond holders receive on their investment.

**Principal investment** — The original amount of money that you place in an investment.

**Qualified domestic relations order (QDRO)** — A qualifying court order that requires the Plan to pay benefits to a participant's former spouse, children, or other payee.

**Return** — The amount of gains or losses on your investments. This return is expressed as a percentage or "rate of return." Returns may include income from interest or dividends as well as appreciation or depreciation of the price of the investment.

**Risk** — A measure of the likelihood of experiencing a loss. With respect to investments, it commonly refers to ups and downs in return. Generally, the higher the risk, the greater the degree of fluctuation in return, both up and down.

**Rollover** — A transaction that allows you to transfer part or all of your account balance to an eligible retirement plan, which includes an individual retirement account under IRC Section 408(a), an individual retirement annuity under IRC Section 408(b), a qualified employer plan under IRC Section 401(a), an annuity plan under IRC Section 403(a), a governmental employer plan under IRC Section 457(b), and an IRC Section 403(b) plan (tax-free annuity plan).

**Securities** — A general term referring to financial instruments such as stocks, bonds, and short-term instruments (as defined below).

**Service** — See “year of service.”

**Short-term instruments** — Generally, debt instruments with maturities of less than one year. These instruments include certificates of deposit (CDs), Treasury bills (T-bills), and money market funds.

**Stock** — A share of ownership in a company (also called “equity”). When you buy stock, you become a part owner of that company.

**Stock Exchange** — A place where stocks and other securities are traded. In this SPD, “Stock Exchange” means the New York Stock Exchange.

**Synthetic GIC** — A portfolio of fixed-income securities (bonds) owned by the Plan with a “wrap contract” written by an insurance company or bank. The “wrap contract” is designed to smooth portfolio gains and losses and to help a fund seek bond-like returns with less volatility than a fixed-income portfolio alone. With synthetic GICs, the bonds are owned by the Plan. Therefore the fund would keep the bonds’ intrinsic value should a wrap issuer fail to meet its future obligations.

**Tax-deferred contributions** — Contributions to the Plan that you elect to have withheld from your paycheck before taxes are withheld. Payment of taxes on your tax-deferred contributions and earnings on those contributions are deferred until you withdraw the money from the Plan.

**Trustee** — Merrill Lynch Trust Company, the person(s) or company(ies) responsible for maintaining the Plan’s trust and its assets.

**Treasury bills, notes, and bonds** — Treasury bills (or “T-bills”) are short-term bonds issued by the U.S. government, typically with a maturity date of three months to one year. Treasury notes (or “T-notes”) typically mature in two to ten years. Treasury bonds (or “T-bonds”) are long-term bonds issued by the U.S. government that typically mature after ten years. These all are considered to be low-risk investments.

**Unit** — A measure that quantifies ownership of shares of companies in an investment fund. For example, an equity fund is composed of shares of stock of many different companies. One unit of an equity fund signifies ownership of a small percentage of every share in the overall fund. As the share prices of those companies increase or decrease, the value of each unit correspondingly increases or decreases.

**U.S. Treasury and federal agency obligations** — Obligations that include “Treasury bills,” “Treasury notes,” and “Treasury bonds” issued by the U.S. Department of the Treasury, as well as bonds issued by federal agencies such as the Federal National Mortgage Agency and the Federal Farm Credit Bureau.

**Vesting** — The process of acquiring a nonforfeitable interest in your account balance. You are fully vested in your own contributions to the account (including any rollover contributions) and any related earnings. Typically, you are vested in all employer matching contributions and discretionary contributions, including earnings, after three years of service.

**Volatility** — The size and frequency of fluctuations in the price and value, and therefore the return, of an investment fund option. A volatile investment tends to show frequent and more extreme fluctuations in price and value.

**Year of service** — An employment year (defined above) in which you complete 1,000 hours of service with Northrop Grumman Corporation (including its subsidiaries and affiliates that are within the “controlled group”).

**Yield** — The interest earned from holding a bond to maturity, expressed as a percentage of the bond’s current price. Investors generally determine bond values by comparing yields.