



Department of Justice

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NORTHROP GRUMMAN TO PAY \$80 MILLION FOR OVERCHARGING THE U.S. AND SELLING DEFECTIVE MILITARY EQUIPMENT TO THE NAVY

WASHINGTON, D.C. - The Northrop Grumman Corporation has agreed to pay the United States \$80 million to resolve allegations of overcharging the government and selling the Navy defective military equipment, the Justice Department announced today. The two actions against the company were brought under the False Claims Act.

In one action, the government alleged that, from 1994 to 1999, Northrop Grumman subsidiary Newport News Shipbuilding (NNS), mischarged as Independent Research and Development (IR&D) its costs for the design and development of double hulled tankers that the shipbuilder had contracts to build for commercial customers. Under applicable regulations, costs may only be charged as IR&D to government contracts if they are not for effort required to perform a contract.

Newport News will pay \$60 million to settle the allegations. Since November 2001, NNS has been a wholly owned subsidiary of Northrop Grumman.

The government's claims were investigated and litigated by the Department of Justice's Civil Division and the United States Attorney's Office for the Eastern District of Virginia, with substantial assistance from auditors from the Defense Contract Audit Agency (DCAA) and agents from the Defense Criminal Investigative Service (DCIS) and the Naval Criminal Investigative Service (NCIS).

"The prosecution of these and similar actions reflects the Department's continuing commitment to ensuring that defense contractors furnish the military with quality products at a fair price," said Assistant Attorney General Peter D. Keisler, head of the Department of Justice's Civil Division.

"Our military relies on its contractors to be honest and forthright," said United States Attorney Paul J. McNulty. "Today's settlement further demonstrates that the Department of Justice will not tolerate violations of that trust."

In a second action, Northrop Grumman agreed to pay \$20 million to resolve allegations that the company knowingly sold the Navy unmanned aerial vehicles, known as Target drones, that contained defective parts. The target drones assembled at Northrop Grumman's Hawthorne, California facility are remotely operated aerial vehicles used for training purposes and for weapons qualification and development. With respect to eight Navy contracts for drones in the late 1980's and early 1990's, the United States alleged that Northrop knowingly provided the Navy with a deficient quality assurance

program that failed to meet military specifications, knowingly delivered drones that contained various defective parts, and that the drones failed to meet contractual reliability requirements. In addition, the United States alleged that various drones experienced major operational failures during Navy operations due to defective Northrop Grumman parts.

The original suit against the company was filed in Los Angeles as a qui tam, or whistle blower suit, under the False Claims Act by a then Northrop Grumman employee. Under the False Claims Act, private individuals who bring suits against companies can receive between 15 and 25 percent of the government's recovery in a case that the government joins.

The United States, after an investigation by NCIS, intervened and took over the case. In addition to NCIS, DCAA and the Defense Contract Management Agency assisted with the case.

The first case is entitled United States v. Newport News Shipbuilding, Inc., C.A. No. 1:03CV142-A (E.D.Va.). The second case is United States ex rel. Jordan v. Northrop Grumman Corp., C.A. No. CV95-2985 ABC (C.D. Cal.).

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