

November 14, 2006

Northrop Grumman Corporation  
Attn: General Counsel's Office  
1840 Century Park East  
Los Angeles, California 90067-2199

Dear General Counsel of Northrop Grumman:

The Project On Government Oversight (POGO) is overhauling and renewing its Federal Contractor Misconduct Database ([www.pogo.org/db/index.cfm](http://www.pogo.org/db/index.cfm)), a compilation of information from public resources regarding government contractors, including Northrop Grumman. On August 16, 2005 and December 2, 2005, we sent you information regarding findings relevant to Northrop Grumman, which we have enclosed for your reference. As of today, we have not received a response from your office.

A written response is certainly in the best interest of everyone involved. It is the best way for your company to go on record regarding this process and the instances identified; your letter will be posted in its entirety on the database. Several companies have already responded and have expressed appreciation for the opportunity to express their views. POGO would prefer to receive a response by November 30, 2006 to ensure it is included with the launch of our new database.

If you have any questions, I can be reached at (202) 347-1122. Thank you for your time and consideration.

Sincerely,

Scott Amey  
General Counsel

Enclosure

## Instances of Misconduct

1.

Bagley v. TRW Inc. (Research and Development Mischarge)

Date: 06/09/2003 (Date of Settlement)

Misconduct Type: Defective Pricing

Contracting Party: Government Defense

Court Type: Civil

Amount: \$111,200,000

Disposition: Settlement

Synopsis: Northrop-Grumman paid \$111.2 million to settle claims that TRW Inc, a company acquired by Northrop in December 2002, had violated the False Claims Act 31 USC §§ 3729-3733, et. seq. The government alleged that: in 1991 and 1992, TRW mischarged two costs - independent research and development (IR&D), as well as bid and proposal - associated with its attempt to enter the space launch vehicle business. According to the complaint, if TRW had correctly accounted for those costs, the federal government would not have reimbursed the company or them, because in 1991 and 1992 TRW exceeded the government's ceiling on what it would pay for IR&D and bid and proposal costs. It was alleged that TRW also mischarged the costs of fabricating and testing a prototype satellite solar array wing as "capital equipment" rather than as IR&D. Again, the complaint alleged that TRW engaged in this practice in order to avoid the government ceiling on IR&D expenditures.

Document(s):

DOJ Press Release

Northrop Grumman Press Release

2.

Defective Pricing

Date: 11/26/1996 (Date of Report)

Misconduct Type: Defective Pricing

Contracting Party: Government Defense

Court Type: Civil

Amount: \$1,500,000

Disposition: Settlement

Synopsis: In a civil suit, According to a GAO report cited by Senator Harkin and Representative DeFazio, Northrop Grumman paid \$1.5 million to the government for "defective pricing."

Document(s):

Harkin and DeFazio Press Release

3.

Defective Pricing (2004)

Date: 09/24/2004 (Date of Settlement)

Misconduct Type: Government Contract Fraud

Contracting Party: Government Defense

Court Type: Civil

Amount: \$81,000,000

Disposition: Settlement

Synopsis: On March 13, 2002, a jury in Indianapolis, Indiana returned a verdict of in favor of Allison Gas Turbine for cost overruns on the engine exhaust liner and trailing edge of a discontinued prototype aircraft from a competitive award process, which occurred in the 1980s. On April 27, 2004, the Court of Appeals of Indiana affirmed the decision of the lower court. On September 28, 2004, Northrop Grumman's appeal to the Supreme Court of Indiana was denied and the company paid \$81 million in settlement of the judgment and interest.

Document(s):

SEC 10-K

4.

Falsification of Inspection Checklists

Date: 03/01/1999 (Date of Report)

Misconduct Type: Government Contract Fraud

Contracting Party: Government Defense

Court Type: Civil

Amount: \$500,000

Disposition: Settlement

Synopsis: Northrop Grumman agreed to pay \$500,000 to the government in a civil settlement after it "falsely certified inspection checklists in military and civilian aircraft." The settlement also covered charges that the company had installed nonconforming parts in military aircraft.

Document(s):

DOD IG Semiannual Report to Congress

5.

Government Overbilling

Date: 09/01/1997 (Date of Report)

Misconduct Type: Defective Pricing

Contracting Party: Government Defense

Court Type: Civil

Amount: \$34,800,000

Disposition: Settlement

Synopsis: A government investigation found that "Northrop Grumman Corporation's Military Aircraft Systems Division (NGMASD) unintentionally overbilled the Government on a Low

Rate Initial Production contract for the B-2 bomber.” Northrop Grumman paid \$34.8 million in a civil settlement to cover the excessive charges and interest.

Document(s):

DOD IG Semiannual Report to Congress

6.

Insurance Violation

Date: 12/30/2003 (Date of Suspension)

Misconduct Type: Government Contract Fraud

Contracting Party: International

Court Type: Administrative

Amount: \$0

Disposition: Suspension/Debarment

Synopsis: Northrop Grumman Aviation was licensed by the Canadian Transport Agency (CTA) to “operate a non-scheduled international service to transport traffic on a charter basis between points in the United States of America and points in Canada.” Northrop Grumman was required to have liability insurance as part of the contract. However, CTA found that Northrop’s certificate of insurance was not valid and suspended the company’s license. Northrop’s next application for the license was approved on July 22, 2004.

Document(s):

CTA Press Release

7.

Jordan v. Northrop Grumman (Navy Target Drones)

Date: 08/20/2003 (Date of Settlement)

Misconduct Type: Government Contract Fraud

Contracting Party: Government Defense

Court Type: Civil

Amount: \$20,000,000

Disposition: Settlement

Synopsis: Allegedly, Northrop Grumman knowingly installed substandard parts in target drones designed for the Navy. This was a violation of the False Claims Act 31 USC §§ 3729-3733, et. seq. The Navy found 32 drones to be defective in firing range operations. The matter was settled as part of a joint settlement with the case United States of America v. Newport News Shipbuilding, Inc. #1:03CV142-A. Of the \$80 million that was paid as part of this joint settlement, approximately \$20 million served as restitution for the defective drones.

Document(s):

DOJ Press Release

Northrop Grumman Press Release

8.

Maze v. Ingalls Shipbuilding (Navy Contracts)  
Date: 11/16/1998 (Date of Settlement)  
Misconduct Type: Government Contract Fraud  
Contracting Party: Government Defense  
Court Type: Civil  
Amount: \$2,250,000  
Disposition: Settlement

Synopsis: Ingalls Shipbuilding, a subsidiary of Northrop Grumman, reached a settlement of \$2.25 million with the Navy. The plaintiff alleged, "Ingalls fraudulently exploited an accounting practice in order to shift certain costs to Navy contracts" and "improperly billed the government for work not performed."

9.

McMorrough and Hanson v. Northrop Grumman (Replacement Parts)  
Date: 03/13/2000 (Date of Settlement)  
Misconduct Type: Government Contract Fraud  
Contracting Party: Government Defense  
Court Type: Civil  
Amount: \$750,000  
Disposition: Settlement

Synopsis: In response to this qui tam action, Northrop Grumman paid \$750,000 "to settle claims arising from its failure to properly manufacture more than 5,000 replacement parts it made for use on military aircraft." Allegedly violating part of a 1992 contract with the Air Force to convert cargo jets to military aircraft, the company failed to recalibrate ovens used to manufacture replacement parts

Document(s):  
[DOJ Press Release](#)

10.

Mississippi Commission on Environmental Quality Hazardous Waste Permit Violation  
Date: 12/18/2003 (Date of Commission Report)  
Misconduct Type: Environment  
Contracting Party: N/A  
Court Type: Civil  
Amount: \$9,100  
Disposition: Settlement

Synopsis: In a settlement with the Mississippi Commission on Environmental Quality, Northrop Grumman Ship Systems paid \$9,100 and "agreed to bring its Hazardous Waste Permit into full compliance regarding proper storage, labeling and handling of hazardous waste related to the facility located in Pascagoula."

Document(s):  
MCEQ Agenda

11.

Mississippi Commission on Environmental Quality Title V Permit Violation

Date: 08/23/2003 (Date of Commission Report)

Misconduct Type: Environment

Contracting Party: N/A

Court Type: Civil

Amount: \$950,000

Disposition: Settlement

Synopsis: Northrop Grumman Ship Systems “violated its Title V permit conditions 3.B.1 and 2 regarding the use of non-compliance coatings in violation of MACT standards for shipbuilding and repair, Title V permit conditions 3.B.8 regarding hourly emissions limitations and Title V permit condition 3.A.2 on March 22, 2000 regarding exceedance of the 40% opacity limits.” Additionally, the company “modified its facility without appropriate prior permitting.”

Document(s):  
MCEQ Agenda

12.

Occupational Safety and Health Administration Citation

Date: 09/06/2002 (Date of News Release)

Misconduct Type: Labor

Contracting Party: N/A

Court Type: Civil

Amount: \$131,000

Disposition: Fine

Synopsis: After a welder was crushed between two ship modules, the Labor department’s Occupational Safety and Health Administration (OSHA) investigated the company’s safety standards. “OSHA cited the company's Gulfport facility, where about 800 employees make modules used in ship construction, for 33 serious safety violations with a proposed penalty of \$131,000. As part of the pre-citation settlement, Northrop Grumman accepted all citations, agreed not to contest the inspection results and paid all penalties.”

Document(s):  
OSHA Press Release

13.

Procurement Fraud

Date: 04/23/1996 (Date of Report)

Misconduct Type: Government Contract Fraud

Contracting Party: Government Defense

Court Type: Civil

Amount: \$100,000  
Disposition: Settlement

Synopsis: In a civil suit According to a GAO report cited by Senator Harkin and Representative DeFazio, Northrop Grumman paid \$100,000 to the government for “procurement fraud.”

Document(s):  
Harkin/DeFazio Press Release

14.  
Procurement Fraud (1995)  
Date: 06/23/1995 (Date of Report)  
Misconduct Type: Government Contract Fraud  
Contracting Party: Government Defense  
Court Type: Civil  
Amount: \$4,000,000  
Disposition: Settlement

Synopsis: According to a GAO report cited by Senator Harkin and Representative DeFazio, Northrop Grumman paid \$4,000,000 to the government for “procurement fraud.”

Document(s):  
Harkin/DeFazio Press Release

15.  
Robinson v. Northrop Grumman Corporation (B-2 Radar)  
Date: 03/01/2005 (Date of Settlement)  
Misconduct Type: Government Contract Fraud  
Contracting Party: Government Defense  
Court Type: Civil  
Amount: \$62,000,000  
Disposition: Settlement

Synopsis: Two whistleblowers filed a civil fraud case against Northrop Grumman in 1989. Though it initially declined to participate, the government joined the case in 2001, accusing Northrop of fraud in two separate instances. They alleged that in the early 1980s, Northrop “engaged in a fraud scheme by routinely submitting false contract proposals,” and “concealed basic problems in its handling of inventory, scrap and attrition.” The second instance alleged that Northrop “lied to the government during a ‘Critical Design Review’” for a B-2 Bomber radar jamming device. Northrop settled the claims for \$62 million.

Document(s):  
Northrop Grumman Press Release  
SEC 10-K

16.

South Coast Air Quality Management District Notice of Violation

Date: 01/12/2004 (Date of Settlement)

Misconduct Type: Environment

Contracting Party: N/A

Court Type: Civil

Amount: \$15,000

Disposition: Settlement

Synopsis: "On July 10, 2003, the South Coast Air Quality Management District (SCAQMD) issued a notice of violation (NOV) to the Space Technology facility in Redondo Beach, California alleging sixty-four deviations from the operating conditions of an air permit. The SCAQMD and the company settled all counts alleged in the NOV by agreement dated December 19, 2003. Pursuant to the terms of the settlement agreement, on January 12, 2004, the company paid a monetary penalty of \$15,000."

Document(s):

SEC 10-K

17.

United States v. Newport News Shipbuilding (Research and Development Mischarge)

Date: 08/20/2003 (Date of Settlement)

Misconduct Type: Defective Pricing

Contracting Party: Government Defense

Court Type: Civil

Amount: \$60,000,000

Disposition: Settlement

Synopsis: Northrop Grumman paid \$60 million to settle allegations that, Newport News Shipbuilding (NNS), a subsidiary acquired in December 2001, "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." This was an alleged violation of the False Claims Act False Claims Act 31 USC §§ 3729, et. seq. The payment came as part of a joint settlement with the case U.S. ex rel. Jordan v. Northrop Grumman Corporation (CD CA No. 95-2985-ABC). Total restitution for the two cases amounted to \$80 million.

Document(s):

DOJ Press Release

Northrop Grumman Press Release

18.

Violation of Truth in Negotiations Act

Date: 06/30/1999 (Date of Report)

Misconduct Type: Government Contract Fraud

Contracting Party: Government Defense

Court Type: Civil  
Amount: \$145,250  
Disposition: Settlement

Synopsis: According to a GAO report cited by Senator Harkin and Representative DeFazio, Northrop Grumman paid \$145,250 to the government for allegations involving violations of the Truth In Negotiations Act, 10 U.S.C. §2306a, et. seq.

Document(s):  
Harkin/DeFazio Press Release

19.  
Youker v. Northrop Grumman Corporation (B-2 Manuals)  
Date: 10/06/2000 (Date of Settlement)  
Misconduct Type: Government Contract Fraud  
Contracting Party: Government Defense  
Court Type: Civil  
Amount: \$1,400,000  
Disposition: Settlement

Synopsis: “A qui tam suit filed against Northrop Grumman Corporation (Northrop), Palmdale, California, alleged that Northrop intentionally overestimated the cost to purchase B-2 bomber instruction and repair manuals from subcontractors. As a result, Northrop defectively priced the manuals by failing to use current pricing data and withheld data that showed its cost estimates were inflated. Northrop agreed to pay a \$1.4 million civil settlement to the Government to resolve the allegations.”

Document(s):  
DOD IG report

20.  
Unfair Labor Practices  
Date: 12/19/2001 (Date of Settlement Agreement)  
Misconduct Type: Labor  
Contracting Party: N/A  
Court Type: Administrative  
Amount: \$2,150,274  
Disposition: Settlement

Synopsis: “National Labor Relations Board General Counsel Arthur F. Rosenfeld announced today final settlement of longstanding unfair labor practice cases involving the former Avondale Industries, resulting in disbursement of over \$2 million in backpay to 61 employees... Under terms of a final settlement agreement approved by the Board on December 19, 2001 (337 NLRB No. 15), Northrop Grumman, the current owner of the shipyard, paid \$2,150,274 to the Board.

Document(s):

NLRB Press Release

21.

Violations of the McNamara-O'Hara Service Contract Act

Date: 05/26/2004 (Date of Restitution Payment)

Misconduct Type: Labor

Contracting Party: N/A

Court Type: Administrative

Amount: \$429,041

Disposition: Restitution

Synopsis: "Northrop Grumman Information Technology Inc. has paid \$429,041 in back wages to 301 mechanics, technicians and range specialists working at Fort Hood, Texas, after a U.S. Department of Labor investigation revealed violations of the McNamara-O'Hara Service Contract Act (SCA)... The investigation covering the period March 1, 2001, to Sept. 30, 2003, found the company paid \$1.39 per hour for health and welfare benefits, rather than the \$1.92 to \$2.15 hourly rate required by the SCA. In addition, the company paid lower hourly wage rates because some workers were misclassified in the occupation."

Document(s):

DOL Press Release

22.

Inadequate Storage of Hazardous Waste

Date: 06/01/2003 (Date of Consent Decree)

Misconduct Type: Environment

Contracting Party: N/A

Court Type: Administrative

Amount: \$47,611

Disposition: Administrative Agreement

Synopsis: On June 1, 2003, the California Environmental Protection Agency and Northrop Grumman entered into a consent decree to resolve investigation findings that waste management units may have released hazardous waste. Under the agreement, Northrop Grumman must make an advance payment of \$47,611, with costs potentially reaching \$768,317.

Document(s):

California EPA Consent Agreement