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NORTHROP GRUMMAN CORP /DE/

Form 11-K

June 28, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2003

OR

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

For the transition period from _____ to _____

Commission file number: 1-12385

A. Full title of the plan and address of the plan, if different from
that of the issuer named below:

NORTHROP GRUMMAN ELECTRONIC SENSORS & SYSTEMS SECTOR
UNION REPRESENTED EMPLOYEES SAVINGS AND INVESTMENT PLAN

B. Name of issuer of the securities held pursuant to the plan and the
address of its principal executive office:

NORTHROP GRUMMAN CORPORATION
1840 Century Park East
Los Angeles, California 90067

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934,
the trustees (or other persons who administer the employee benefit plan) have
duly caused this annual report to be signed on its behalf by the undersigned
hereunto duly authorized.

NORTHROP GRUMMAN ELECTRONIC SENSORS & SYSTEMS SECTOR
UNION REPRESENTED EMPLOYEES SAVINGS AND INVESTMENT PLAN

Dated: June 25, 2003

/s/ J. Michael Hateley

By: J. Michael Hateley
Chairman, Administrative Committee

Northrop Grumman Electronic
Sensors & Systems Sector
Union Represented Employees
Savings and Investment Plan

Financial Statements as of December 31, 2003 and
2002 and for the Year Ended December 31, 2003,

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Supplemental Schedule and Report of Independent
Registered Public Accounting Firm

NORTHROP GRUMMAN ELECTRONIC SENSORS &
SYSTEMS SECTOR UNION REPRESENTED EMPLOYEES
SAVINGS AND INVESTMENT PLAN

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December 31, 2003

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Administrative Committee

Northrop Grumman Electronic Sensors & Systems Sector Union Represented Employees
Savings and Investment Plan

We have audited the accompanying statements of net assets available for benefits of the Northrop Grumman Electronic Sensors & Systems Sector Union Represented Employees Savings and Investment Plan (the "Plan") as of December 31, 2003 and 2002, and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements, referred to above, present fairly, in all material respects, the net assets available for plan benefits as of December 31, 2003 and 2002 and the changes in net assets available for plan benefits for

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the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) at December 31, 2003 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This schedule is the responsibility of the Plan's management. Such schedule has been subjected to the auditing procedures applied in the audit of the basic 2003 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
June 25, 2004

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NORTHROP GRUMMAN ELECTRONIC SENSORS &
SYSTEMS SECTOR UNION REPRESENTED EMPLOYEES
SAVINGS AND INVESTMENT PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
AS OF DECEMBER 31, 2003 AND 2002

	2003	2002
ASSETS:		
Investments (Notes B, C, D and E)		
Plan interest in the Northrop Grumman Stable Value Fund	\$ 85,980,154	\$ 81,214,242
Investments	43,462,208	34,093,342
	-----	-----
Total investments	129,442,362	115,307,584
	-----	-----
Receivables:		
Employer contributions	50,542	45,613
Participant contributions	160,613	184,735
Accrued investment income	15,846	128,515
	-----	-----
Total receivables	227,001	358,863
	-----	-----
Total assets	129,669,363	115,666,447
	-----	-----
LIABILITIES:		
Accrued administrative expenses	68,388	39,783
	-----	-----
NET ASSETS AVAILABLE FOR PLAN BENEFITS	\$129,600,975	\$115,626,664
	=====	=====

See accompanying notes to financial statements.

NORTHROP GRUMMAN ELECTRONIC SENSORS &
SYSTEMS SECTOR UNION REPRESENTED EMPLOYEES
SAVINGS AND INVESTMENT PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2003

INVESTMENT INCOME:

Net appreciation in fair value of investments (Notes B and C)	\$ 7,139,968
Plan interest in Northrop Grumman Stable Value Fund investment income (Notes B, C, D and E)	3,882,395
Dividends	290,492
Interest and other income	76,691

Total investment income	11,389,546

CONTRIBUTIONS:

Employer	2,626,689
Participant	8,480,678

Total contributions	11,107,367

DEDUCTIONS:

Benefits paid to participants (Note B)	8,478,659
Administrative expenses	43,943

Total deductions	8,522,602

NET INCREASE 13,974,311

NET ASSETS AVAILABLE FOR PLAN BENEFITS:

Beginning of year	115,626,664

End of year	\$129,600,975
	=====

See accompanying notes to financial statements.

NORTHROP GRUMMAN ELECTRONIC SENSORS &
SYSTEMS SECTOR UNION REPRESENTED EMPLOYEES
SAVINGS AND INVESTMENT PLAN

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

A. DESCRIPTION OF THE PLAN

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The following description of the Northrop Grumman Electronic Sensors & Systems Sector Union Represented Employees Savings and Investment Plan (the "Plan") provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General -- The Plan is a qualified profit-sharing and employee stock ownership plan sponsored by the Electronic Systems Sector of Northrop Grumman Corporation (the "Company"). The Plan covers all Electronic Systems Sector union represented employees of the Company who are citizens of the United States of America or resident aliens and are not covered by another plan. It is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The Plan, formerly named Northrop Grumman Electronic Sensors & Systems Sector Savings and Investment Plan (the "ESSS Plan"), was established by the Company as a successor to the Westinghouse Savings Program (the "Westinghouse Plan"), maintained by Westinghouse Electric Corporation ("Westinghouse") for the benefit of employees who were employed by the Westinghouse Electronic Systems Group as of February 29, 1996 and became employees of the Company as of March 1, 1996, and any other subsequent eligible employees of the Company.

The ESSS Plan included assets for both the union-represented and non-represented participants through March 31, 2000. On April 1, 2000, the ESSS Plan's name was changed to the Northrop Grumman Electronic Sensors & Systems Sector Union Represented Employees Savings and Investment Plan, and the Plan documents were amended accordingly. Assets related to non-represented participant accounts were transferred to another plan sponsored by the Company.

Contributions -- Plan participants may contribute between 2% and 20% of eligible compensation as defined in the Plan, in increments of 1%, on an after-tax basis, a pre-tax basis, or a combination thereof, subject to limitations set forth by the Internal Revenue Code of 1986, as amended (the "1986 Code"). Each pay period, or weekly, for each dollar a participant contributes, the Company makes a matching contribution of \$0.50, subject to a maximum Company matching contribution of 3% of eligible compensation for that pay period.

A participant, other than a terminated participant, who has received a rollover distribution from a qualified defined contribution plan or a distribution from an Individual Retirement Account, may elect to roll over not more than the cash value of the distribution, less any amount attributable to the participant's after-tax contributions, to his or her account within 60 days of receipt of such distribution. The participant may elect to invest any amount rolled over or transferred to the Plan in any of the investment options available in increments of 1%.

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Participant Accounts -- A separate account is maintained for each participant. Company matching contributions are allocated to the participant's Company Matching Contribution Account. Assets of the trust are valued daily and take into account earnings and losses of the trust along with appreciation or depreciation, expenses, and distributions.

Vesting -- Plan participants are 100% vested in, and have a non-forfeitable right to, the balance of their accounts at all times. Plan

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participants as of March 1, 1996 who had a 100% vested interest in their accounts under the Westinghouse Plan as of February 29, 1996 were 100% vested in their Company Matching Contribution Accounts as of March 1, 1996. All other Plan participants who were not fully vested as of March 1, 1996 in their Company Matching Contribution Accounts were not vested in any portion of their Company Matching Contribution Accounts until they had accrued five years of service, at which time they became 100% vested in and had a non-forfeitable right to their Company Matching Contribution Accounts. Company Matching Contribution Accounts become 100% vested upon retirement or death.

Investment Options -- Upon enrollment in the Plan, each participant may direct that his or her accounts, in 1% increments, be invested in any of the following 11 investment funds:

Janus Income Fund -- The Janus Fund invests in the equity securities of large, well-established companies located in both the United States and abroad, with an objective of growth of capital.

Fidelity Growth & Income Portfolio Fund -- The Fidelity Growth & Income Portfolio Fund invests in a combination of common stock, preferred stock and both foreign and domestic bonds. Its objectives are long-term capital growth, current income and growth of income.

American 20th Century Ultra Fund -- The American 20th Century Ultra Fund invests in small to medium sized companies, with the objective of achieving capital growth over the long term.

JPM Institutional Diversified Fund -- The JPM Institutional Diversified Fund invests in equity securities of international and domestic companies, both large and small. It will also include a smaller allocation of bonds, including high-grade corporate issues, mortgage-related securities, U.S. government and agency instruments, and private placements.

JPM Institutional International Equity Fund -- The JPM Institutional International Equity Fund invests in equity securities of companies located in foreign, developed countries, with the objective of long-term capital growth.

Investment Lifecycle Short Range Fund -- The Investment Lifecycle Short Range Fund invests in a majority of bonds with smaller allocations of cash investments and stocks, with the objective of providing current income and some growth potential.

Investment Lifecycle Mid Range Fund -- The Investment Lifecycle Mid Range Fund invests in an asset mix consisting of stocks, bonds and cash investments, with the objective of providing current income and growth potential over the long term.

Investment Lifecycle Long Range Fund -- The Investment Lifecycle Long Range Fund invests in an asset mix consisting of a majority of stocks with smaller allocations of bonds and cash investments, with the objective of providing high total return in the form of growth and income.

Investment Large Cap Equity (Equity 500) Index Fund -- The Investment Large Cap Equity (Equity 500) Index Fund invests in a well-diversified

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portfolio of stocks, as defined by an established market index. The objective of this fund is to provide the price and yield performance of the S&P 500.

Stable Value Fund -- The Plan holds an interest in the Northrop Grumman Stable Value Fund (the "Stable Value Fund"; see Note D). Investments of the Stable Value Fund are diversified among U.S. government securities and obligations of government agencies, bonds, short-term investments, cash and contracts issued by insurance companies and banks. The Stable Value Fund is managed by an independent professional investment manager appointed by the Plan's Investment Committee.

Northrop Grumman Fund -- The Northrop Grumman Fund invests primarily in Northrop Grumman Corporation common stock.

The Viacom Incorporated Common Stock Fund was transferred from the Westinghouse Plan. This fund was frozen, and no employee contributions have been allowed since the transfer.

Participant Loans -- Participants may borrow from their Plan accounts a minimum of \$1,000, in \$100 increments, equal to the lesser of \$50,000, reduced by the highest outstanding loan balance during the preceding 12 months, or 50% of their account balance. A participant may not have more than two outstanding loans at any given time. Loan transfers are treated as a transfer to (from) the investment fund from (to) the loan fund. Loans are prorated across all investment funds. Loans are secured by the balance in the participant's account and bear interest determined at the Plan trustee's prime interest rate on the close of business on the last business day of the preceding calendar month plus 1%. Repayments are made from payroll deductions over a period of 12 to 60 months.

Payment of Benefits -- On termination of service due to retirement, a participant may elect to receive a lump-sum amount equal to the value of the participant's vested interest in his or her account, or monthly or annual installments, the amount of which is determined by the participant at retirement. A retired participant may cancel or change such election at any time, and may also elect a partial distribution. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum amount, or leave his or her vested account in the Plan if he or she has not yet reached normal retirement age; however, amounts must be withdrawn in a lump sum by the terminated participant's at age 70 1/2.

Death benefits for active participants are to be paid to the designated beneficiary in a lump sum, or, if the designated beneficiary is also the surviving spouse, he or she may elect to leave the vested balance in the Plan and be treated as the retired participant. Death benefits for terminated employees are paid in a lump sum to the designated beneficiary.

Withdrawals -- A vested participant is permitted to make a withdrawal of his or her (i) after-tax contributions and Company matching contributions for any reason and (ii) rollover contributions for any reason but only upon the attainment of age 59-1/2 or, if prior to the attainment of age 59-1/2, in the case of hardship (as described in the Plan document). A non-vested participant is permitted to make a withdrawal of his or her (i) after-tax contributions that were not matched by the Company for any reason and (ii) after-tax contributions that were matched by the Company only in the case of hardship. A non-vested participant is permitted to

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make a withdrawal from his or her pre-tax contributions in the case of hardship. A non-vested participant is not permitted to make a withdrawal of Company matching contributions.

B. SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting -- The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risk and Uncertainties -- The Plan invests in various securities including U.S. government securities, corporate debt instruments and corporate stocks. Investment securities, in general, are normally exposed to various risks, such as interest rate, credit and overall market volatility. Due to the ongoing level of risk associated with investment securities, changes in the values of investment securities may occur in the near term which could materially affect the amounts reported in the statements of net assets available for plan benefits.

Investment Valuation and Income Recognition -- In the accompanying statements of net assets available for plan benefits, the Plan's investments are stated at fair value as determined by State Street Bank and Trust Company ("State Street" or the Trustee), except for the investment contracts with insurance companies included in the Stable Value Fund, which are stated at contract value (see Note E). Quoted market prices are used to determine the fair value of the investments. Loans receivable from participants are valued at cost, which approximates fair value.

Securities are valued at their market values based on information and financial publications of general circulation, statistical and valuation services, records of security exchanges, appraisals by qualified persons, transactions and bona fide offers in assets of the type in question and other information customarily used in the valuation of assets or if market values are not available, at their fair values as provided to the Trustee by the party with authority to trade such securities (investment managers, the Investment Committee, or, in the case of participant directed brokerage accounts, the participant's broker, as applicable). The Trustee relies on the prices provided by pricing sources or the investment managers, Investment Committee or participant's broker as a certification as to value in performing any valuations or calculations required of the Trustee.

All securities and cash or cash equivalents are quoted in the local currency and then converted into US dollars using the appropriate exchange rate obtained by the Trustee. Purchases and sales of securities

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are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Broker commissions, transfer taxes and other charges and expenses incurred

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in connection with the purchase, sale or other disposition of securities or other investments held by the Plan are added to the cost of the securities or other investments or are deducted from the proceeds of the sale or other disposition thereof, as appropriate. Taxes (if any) on the assets of the funds, or on any gain resulting from the sale or other disposition of such assets, or on the earnings of the funds, are apportioned among the participants and former participants (if any) whose interests in the Plan are affected, and the share of such taxes apportioned to each person is charged against his or her account in the Plan.

Payment of Benefits -- Benefits are recorded when paid.

C. INVESTMENTS

The following presents investments that represent 5% or more of the Plan's net assets, other than the Plan's investment in the Stable Value Fund, as of December 31:

	2003	2002
Janus Income Fund	\$ 8,079,597	\$ 6,262,758
Viacom Inc. common stock	\$ 6,708,880	\$ 6,386,807
Fidelity Growth & Income Portfolio Fund	\$ 6,688,261	
American 20th Century Ultra Fund	\$ 6,055,109	
Scudder Institutional Equity Index	\$ 5,849,673	

During 2003, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year), other than the Plan's investment in the Stable Value Fund, appreciated in value as follows:

Mutual funds	\$5,735,956
Common stock	1,404,012

Net appreciation in fair value of investments	\$7,139,968
	=====

D. INTEREST IN NORTHROP GRUMMAN STABLE VALUE FUND

A portion of the Plan's investments includes amounts in the Stable Value Fund, which was established for the investment of assets of the Plan and two other Northrop Grumman Corporation sponsored savings plans. Each participating savings plan has an undivided interest in the Stable Value Fund. At December 31, 2003 and 2002, the Plan's interests in the net assets of the Stable Value Fund were 4.0% and 4.6%, respectively. Investment income and administrative expenses relating to the Stable Value Fund are allocated among the participating plans on a daily basis.

Investments held in the Stable Value Fund are as follows as of December 31:

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	2003	
Guaranteed and Synthetic Investment Contracts (at contract value)	\$1,757,340,661	\$1
Merrill Lynch Retirement Preservation Trust	353,175,048	
Cash and cash equivalents	7,241,405	
	-----	---
Total	\$2,117,757,114	\$1
	=====	==

Investment income of the Stable Value Fund was \$85,849,902 for the year ended December 31, 2003.

The Plan has an arrangement with the investment manager of the Stable Value Fund whereby the investment manager has the ability to borrow amounts from third parties to satisfy liquidity needs of the Stable Value Fund, if necessary. As of December 31, 2003, no borrowings under this arrangement were outstanding.

As of December 31, 2003, Stable Value Fund assets of \$695,984,508 were on loan to third party borrowers under security lending agreements. Such assets could be subject to sale restrictions in the event security lending agreements are terminated and the securities have not been returned to the Plan.

E. INVESTMENT CONTRACTS WITH INSURANCE COMPANIES

All investment contracts held by the Stable Value Fund are considered to be fully benefit-responsive and are therefore recorded at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less withdrawals and administrative expenses.

The Stable Value Fund holds wrapper contracts in order to manage the market risk and return of certain securities held by the Stable Value Fund. The wrapper contracts generally modify the investment characteristics of certain underlying securities similar to those of guaranteed investment contracts. Each wrapper contract and its related underlying assets are referred to as a Synthetic Investment Contract ("SIC") and is recorded at contract value. The SICs held by the Stable Value Fund had a contract value totaling \$1,753,314,248 and \$1,646,981,826 at December 31, 2003 and 2002, respectively. The fair value of the underlying assets related to the wrapper contracts totaled \$1,834,125,347 and \$1,746,621,817 as of December 31, 2003 and 2002, respectively.

The fair value of the non-synthetic guaranteed investment contracts totaled \$4,027,108 and \$43,495,206 at December 31, 2003 and 2002, respectively.

The following information is disclosed for the investment contracts within the Stable Value Fund as of December 31:

	2003	2002
Average yield of assets on December 31	4.68%	5.53%
Average crediting interest rate of assets at December 31	4.68%	5.53%
Average duration	3.16 years	2.58 years

F. PARTY-IN-INTEREST TRANSACTIONS

Certain Plan investments represent short-term investments managed by State Street and, therefore, qualify as party-in-interest transactions. No fees were paid by the Plan to State Street for investment management services for the years ended December 31, 2003 and 2002, respectively.

G. PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of the Plan's termination, participants will become 100% vested in their accounts.

H. FEDERAL INCOME TAX STATUS

The plan obtained its latest determination letter dated November 6, 2002 in which the Internal Revenue Service determined that the Plan terms at the time of the determination letter application were in compliance with applicable sections of the 1986 Code and, therefore, the related trust is exempt from taxation. The Plan has been amended since receiving the determination letter. Although the amendments have not yet been filed for a favorable determination letter, management will make any changes necessary to maintain the Plans qualified status. However, management believes that the Plan and related trust are currently designed and operated in compliance with the applicable requirements of the 1986 Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

I. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for plan benefits per the financial statements to the Form 5500 as of December 31:

	2003	2002
Net assets available for plan benefits, per the financial statements	\$ 129,600,975	\$ 115,626,664
Less: Amounts allocated to withdrawing participants	(43,515)	(382,731)
Net assets per the Form 5500	\$ 129,557,460	\$ 115,243,933

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 for the year ended December 31, 2003:

Benefits paid to participants per the financial statements	\$ 8,478,659
Add: Amounts allocated to withdrawing participants at December 31, 2003	43,515

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Less: Amounts allocated to withdrawing participants at December 31, 2002	(382,731)

Benefits paid to participants per the Form 5500	\$ 8,139,443
	=====

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31 but not yet paid as of that date.

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NORTHROP GRUMMAN ELECTRONIC SENSORS &
SYSTEMS SECTOR UNION REPRESENTED EMPLOYEES
SAVINGS AND INVESTMENT PLAN

FORM 5500 SCHEDULE H, PART IV, LINE 4i
SCHEDULE OF ASSETS (HELD AT END OF YEAR)
DECEMBER 31, 2003

Identity of Issue, Borrower, Lessor or Similar Party	Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value
* Northrop Grumman Stable Value Fund	Participation in Northrop Grumman Stable Value Fund
Viacom Inc.	151,169 Shares of Common Stock
Janus	344,252 Shares of Participation in the Income Fund
Fidelity	187,714 Shares of Participation in the Growth & Income Portfolio Funds
American	227,209 Shares of Participation in the 20th Century Ultra Fun
* Northrop Grumman	4,600,704 Shares of Participation in the Loan Fund
* State Street	610,323 Shares of Participation in the Cash/STIF Accounts
* Northrop Grumman	17,061 Shares of Corporate Stock
Scudder Institutional Funds	46,823 Shares of Participation in the Equity Index 500
JPM	66,013 Shares of Participation in the Institutional Diversified Fund
JPM	85,160 Shares of Participation in the Institutional International Equity Fund
Scudder Advisor	88,928 Shares of Participation in the Lifecycle Long Range Fu
Scudder Advisor	66,126 Shares of Participation in the Lifecycle Mid Range Fun

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Scudder Advisor

27,934 Shares of Participation in the Lifecycle Short Range F

* Party-in-interest

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