

August 16, 2005

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), a compilation of information from public resources regarding government contractors, including Northrop Grumman. I have enclosed the findings relevant to Northrop Grumman and am requesting verification or refutation of the data from you.

Any response would be greatly appreciated, as the accuracy of this information is in the best interest of all parties. Out of fairness to Northrop Grumman, please be assured that any response received by POGO will be posted on the website along with the data.

Changes to the database include: the addition of more current instances, removal of Superfund cleanup costs, and removal of information that could not be verified with official documents. Additionally, pending cases will still be included, but this information will be kept separate from the resolved cases and will not be included in any totals.

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

Sincerely,

Kevin L. Phelps
Project Director

Enclosure

Instances of Misconduct

1.

Case Name: US ex rel. Rex Robinson v. Northrop Grumman Corporation

Date: 3/1/2005

Misconduct Type: Government Contract Fraud

Contracting Party: Defense

Court Type: Civil

Amount paid: \$62 million

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.

Documents:

DoD IG release:

http://www.dodig.osd.mil/IGInformation/IGInformationReleases/Northrop_030105B2.pdf

United States Security and Exchange Commission, Form 10-K, Northrop Grumman, for the year ended December 31, 2004.

http://www.sec.gov/Archives/edgar/data/1133421/000119312505041833/d10k.htm#toc17524_4

Company press release:

<http://investor.northropgrumman.com/phoenix.zhtml?c=112386&p=IROL-nrtext&t=Regular&id=680327&>

2.

Case Name: Unnamed

Date: 9/24/2004

Misconduct Type: Government Contract Fraud

Contracting Party: Defense

Court Type: Civil

Amount paid: \$81 million

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.

Documents:

United States Security and Exchange Commission form 10-k:

<http://www.sec.gov/Archives/edgar/data/1133421/000119312505041833/d10k.htm>

3.

Case Name: Jessica DeLeon v. Northrop Grumman Systems Corp.

Date: 8/6/2004

Misconduct Type: Negligence

Contracting Party: Defense

Court Type: Civil

Amount paid: \$1.53 million

Disposition: settlement

Synopsis:

“Products liability claim by Jessica DeLeon against Northrop Grumman Systems Corp. for injuries sustained by DeLeon when the fire truck that she was involved in operating shifted into gear and pinned her against a steel post. She claimed that a defective design on the truck permitted it to shift unexpectedly when the pump was activated. The design was called into question in the mid-1980s by the manufacturer's own engineers, who prescribed a fix that would have cost virtually nothing to implement. The design changes were never made because the company claimed that it hadn't had any problems with it. The jury found Grumman was 17.5 percent at fault and the Gelen Fire Department 82.5 percent at fault and assessed DeLeon's damages at \$8.75 million with a result judgment against Grumman of \$1.53 million.”

Documents:

Morelaw.com

<http://www.morelaw.com/verdicts/case.asp?n=Unknown&s=NM%20%20%20%20%20%20%20%20%20&d=28629>

“Injured firefighter awarded money,” *The Associated Press*, August 5, 2004

4.

Case Name: N/A

Date: 1/12/2004

Misconduct Type: environmental violations

Contracting Party: Defense

Court Type: Civil

Amount paid: \$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.

Documents:

Company 10-K report for the year ending 12/31/2003:

<http://www.sec.gov/Archives/edgar/data/1133421/000119312504038360/d10k.htm>

5.

Date: 12/30/2003

Misconduct Type: failure to meet contract specifications

Contracting Party: Defense

Disposition: Suspension

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.

Documents:

Canadian Transportation Agency Decision and Rulings document:

http://www.cta-otc.gc.ca/rulings-decisions/orders/2003/A/2003-A-643_e.html

6.

Case Name: unnamed

Date: 12/18/2003

Misconduct Type: Environmental violations

Contracting Party: Defense

Court Type: Civil

Amount paid: \$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.”

Documents:

Mississippi Commission on Environmental Quality release, December 18, 2003

[http://www.deq.state.ms.us/MDEQ.nsf/pdf/About_DEC03AGN/\\$File/DEC03AGN.pdf?OpenElement](http://www.deq.state.ms.us/MDEQ.nsf/pdf/About_DEC03AGN/$File/DEC03AGN.pdf?OpenElement)

7.

Case Name: N/A

Date: 8/23/2003

Misconduct Type: Environment

Contracting Party: N/A

Court Type: Civil
Amount paid: \$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.”

Documents:

Mississippi Commission on Environmental Quality, August 28, 2003
[http://www.deq.state.ms.us/MDEQ.nsf/pdf/About_AUG03AGN/\\$File/AUG03AGN.pdf?OpenElement](http://www.deq.state.ms.us/MDEQ.nsf/pdf/About_AUG03AGN/$File/AUG03AGN.pdf?OpenElement)

8.

Case Name: U.S. ex rel. Jordan v. Northrop Grumman Corporation (CD CA No. 95-2985-ABC)

Date: 8/20/2003

Misconduct Type: Government Contract Fraud (violation of False Claims Act)

Contracting Party: Defense

Court Type: Civil

Amount paid: \$20 million

Disposition: settlement

Synopsis:

Allegedly, Northrop Grumman knowingly installed substandard parts in target drones designed for the Navy. 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.

Documents:

Northrop Grumman company press release:

http://www.irconnect.com/noc/pages/news_releases.mhtml?d=44152

US Department of Justice press release:

http://www.usdoj.gov/opa/pr/2003/August/03_civ_465.htm

9.

Case Name: United States v. Newport News Shipbuilding, Inc., C.A. No. 1:03CV142-A (E.D.Va.)

Date: 8/20/2003

Misconduct Type: Government Contract Fraud (violation of False Claims Act)

Contracting Party: Defense

Court Type: Civil

Amount paid: \$60 million

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." 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.

Documents:

Northrop Grumman company press release:

http://www.irconnect.com/noc/pages/news_releases.mhtml?d=44152

US Department of Justice press release:

http://www.usdoj.gov/opa/pr/2003/August/03_civ_465.htm

10.

Case Name: United States ex rel. Bagley v. TRW Inc., No. CV 95-4153-AHM

Date: 6/9/2003

Misconduct Type: Government Contract Fraud (violation of False Claims Act)

Contracting Party: Defense

Court Type: Civil

Amount paid: \$111.2 million

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. 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.
- TRW 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.
- TRW engaged in the same mischarging with respect to programs called the Universal Test Bed (UTB) and the Eagle Test Bed (ETB). The government alleged that the UTB and ETB were both prototypes of spacecraft buses and that TRW falsely charged the costs of their fabrication and testing as "capital equipment" rather than as IR&D, again in order to avoid the government's ceiling on IR&D costs.
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From 1990 through 1997, TRW Space Park engineers misclassified work that they were performing for TRW's private commercial automotive groups when, in fact, the work they were performing was really IR&D. By misclassifying work in such categories as "long-range marketing" costs instead of IR&D, TRW was able to reduce costs to the company's commercial automotive groups, and caused the federal government to pay these private costs due to the resulting increase in overhead and general and administrative costs that applied to TRW's government contracts.

- TRW caused the government to pay for the development of a proposal to build a satellite telecommunications program known as Odyssey. TRW had a contract with Teleglobe, Inc. to submit a proposal to a jointly formed private corporation for the construction of the Odyssey satellite system. Instead of charging the costs of preparing that proposal to a direct commercial account as required by government accounting regulations, TRW charged the costs to its general and administrative account, which then caused the federal government to pay most of those costs.

Documents:

Northrop Grumman press release:

http://www.irconnect.com/noc/press/pages/news_releases.mhtml?d=41229

US Department of Justice press release:

http://www.usdoj.gov/opa/pr/2003/June/03_civ_343.htm

11.

Case Name: N/A

Date: 9/6/2002

Misconduct Type: Labor

Contracting Party: N/A

Court Type: Civil

Amount paid: \$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."

Documents:

OSHA press release:

http://www.osha.gov/pls/oshaweb/owadisp.show_document?p_table=NEWS_RELEASES&p_id=1525

12.

Case Name: U.S. ex rel. Youker v. Northrop Corporation (CD CA No. CV96-5587-RSWL

Date: 10/6/2000

Misconduct Type: Government Contract Fraud (violations of Truth in Negotiations Act)

Contracting Party: Defense

Court Type: Civil

Amount paid: \$1.4 million

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.”

Documents:

“Department of Defense Inspector General Semi-annual Report to Congress,” October 1, 2000 – March 31, 2001. page 14. <http://www.dodig.osd.mil/sar/Mar2001SAR.pdf>.

13.

Case Name: Unnamed

Date: 7/1/2000

Misconduct Type: Government Contract Fraud

Contracting Party: Defense

Court Type: Civil

Amount paid: \$5.3 million

Disposition: Settlement

Synopsis:

Northrop Grumman paid \$5.3 million for violations of the Truth In Negotiations Act by Westinghouse Electric Corp.'s Electronic Systems Group, a subsidiary purchased in 1996. Investigators determined Westinghouse had “inflated its costs for supplies to build F-16 radar systems”

Documents:

DoD IG press release

14.

Case Name: U.S. ex rel McMorrough and Hanson v. Northrop Grumman Corporation, No. 95-0382

Date: 3/13/2000

Misconduct Type: Government Contract Fraud

Contracting Party: Defense

Court Type: Civil

Amount paid: \$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.

Documents:

US Department of Justice press release:

<http://www.usdoj.gov/opa/pr/2000/March/120civ.htm>

15.

Case Name: Unnamed

Date: 3/1/1999

Misconduct Type: Government Contract Fraud

Contracting Party: Defense

Court Type: Civil

Amount paid: \$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.

Documents:

“Department of Defense Inspector General Semi-annual Report to Congress,” October 1, 1998 – March 31, 1999. page 21. <http://www.dodig.osd.mil/sar/sar19991.pdf>

16.

Case Name: Maze v Ingalls Shipbuilding, Docket #95-CV-187, US DC SD MS

Date: 11/16/1998

Misconduct Type: Government Contract Fraud

Contracting Party: Defense

Court Type: Civil

Amount paid: \$2.25 million

Disposition: Settlement

Synopsis:

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

Documents:

US Department of Justice press release. November 16, 1998:

<http://www.usdoj.gov/opa/pr/1998/November/545civ.htm>

17.

Case Name: Unnamed

Date: 9/1/1997

Misconduct Type: Government Contract Fraud

Contracting Party: Defense

Court Type: Civil

Amount paid: \$34.8 million

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.

Documents:

“Department of Defense Inspector General Semi-annual Report to Congress,” April 1, 1997 – September 30, 1997, page 24. <http://www.dodig.osd.mil/sar/972semi.pdf>

18.

Case Name: Unnamed

Date: 11/26/1996

Misconduct Type: Government Contract Fraud

Contracting Party: Defense

Court Type: Civil

Amount paid: \$1.5 million

Disposition: Settlement

Synopsis:

A GAO investigation discovers that Northrop-Grumman paid \$1.5 million to the government in a civil case for “defective pricing.” The case appears on a list of procurement fraud among the top 100 defense contractors.

Documents:

Senator Tom Harkin and Peter DeFazio press release, follow link to file request for list

<http://www.house.gov/defazio/060700DERelease.shtml>

19.

Case Name: Unnamed

Date: 4/23/1996

Misconduct Type: Government Contract Fraud

Contracting Party: Defense
Court Type: Civil
Amount paid: \$100,000
Disposition: Settlement

Synopsis:

According to a GAO report cited by Senator Harkin and Representative DeFazio, Northrop Grumman paid \$100,000 to the government to settle allegations of “procurement fraud” which would violate the False Claims Act.

Documents:

Documents: Senator Harkin and Representative DeFazio Press Release, 6/7/2000

20.

Case Name: Unnamed
Date: 6/23/1995
Misconduct Type: Government Contract Fraud
Contracting Party: Defense
Court Type: Civil
Amount paid: \$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 to settle allegations of “procurement fraud” which violated the False Claims Act.

Documents:

Documents: Senator Harkin and Representative DeFazio Press Release, 6/7/2000

Pending Cases

Case Name: N/A
Misconduct Type: Government Contract Fraud
Contracting Party: Defense
Court Type: Civil

Synopsis:

Tina Marie Gonter and William Charles Gonter are suing Northrop Grumman along with General Dynamics Electric Boat, “accusing the shipyards of failing in their duty to ensure the safety of key parts on their submarines.” They say that the companies contend should have caught ongoing quality problems at Hunt Valve, of Salem, Ohio, a key maker of submarine valves. They accuse the companies of “knowingly selling valves that didn't meet the proper specifications, having non-qualified personnel - including a janitor -

perform the required inspections, and deliberately falsifying numerous documents attesting to the valves' safety.” The US government has not joined the case.

Documents:

“Yards sued over claims of faulty sub valves.” *Dailypress.com*. June 2, 2005.

<http://www.dailypress.com/news/dp-26792sy0jun02,0,3242991.story?coll=dp-headlines-topnews>