NORTHROP GRUMMAN CORP /DE/
Form 11-K
June 24, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 11-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010
OR

o **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to _________.
Commission file number: 1-16411

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

Northrop Grumman Savings Plan

Financial Statements as of December 31, 2010 and 2009,
and for the Year Ended December 31, 2010, and
Supplemental Schedule as of December 31, 2010 and
Report of Independent Registered Public Accounting Firm

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NORTHROP GRUMMAN SAVINGS PLAN
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NOTE: Schedules required by Section 2520.103-10 of the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because of the absence of conditions under which they are required.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Benefit Plan Administrative Committee of the
Northrop Grumman Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Northrop Grumman Savings Plan (the Plan) as of December 31, 2010 and 2009, and the related statement of changes in net assets available for benefits for the year ended December 31, 2010. 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 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. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. 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, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2010 and 2009, and the changes in net assets available for benefits for the year ended December 31, 2010 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) as of December 31, 2010, 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 our audit of the basic 2010 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 24, 2011

NORTHROP GRUMMAN SAVINGS PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AS OF DECEMBER 31, 2010 AND 2009
($ in thousands)

	2010	2009
ASSETS:		
Investment in Northrop Grumman Defined Contribution Plans Master Trust at fair value	$ 14,223,436	$ 12,703,386
Investment in Charles Schwab Personal Choice Retirement Account at fair value	1,187,713	1,049,895
Short-term investments at fair value	26,513	23,885
Total investments	15,437,662	13,777,166
Receivables:		
Notes receivable from participants	269,703	246,691
Participant contributions	2,752	2,487
Employer contributions	947	834
Total receivables	273,402	250,012
Total assets	15,711,064	14,027,178
LIABILITIES:		
Accrued expenses	5,299	6,382
Total liabilities	5,299	6,382
NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE	15,705,765	14,020,796
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(194,972)	(141,525)
NET ASSETS AVAILABLE FOR BENEFITS	$ 15,510,793	$ 13,879,271

See notes to financial statements.

NORTHROP GRUMMAN SAVINGS PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2010
($ in thousands)

INVESTMENT INCOME:	
Plan interest in Northrop Grumman Defined Contribution Plans Master Trust	$ 1,375,685
Net appreciation in fair value of other investments	111,662
Dividends	13,956
Interest	574
Total investment income	1,501,877
ADDITIONS:	
Participant contributions	904,971
Employer contributions	328,445
Interest income on notes receivable from participants	13,108
Total additions	1,246,524
DEDUCTIONS:	
Benefits paid to participants	(1,158,281)
Administrative expenses	(11,936)
Total deductions	(1,170,217)
TRANSFER OF NET ASSETS FROM PLANS MERGED DURING THE YEAR	53,338
INCREASE IN NET ASSETS	1,631,522
NET ASSETS AVAILABLE FOR BENEFITS:	
Beginning of year	13,879,271
End of year	$ 15,510,793

See notes to financial statements.

NORTHROP GRUMMAN SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010 AND 2009, AND FOR THE YEAR ENDED DECEMBER 31, 2010

1. DESCRIPTION OF THE PLAN

The following description of the Northrop Grumman Savings 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 Northrop Grumman Corporation (the Company) established February 1, 1962 and restated effective August 1, 2010. It covers substantially all hourly and salaried employees of the Company who are at least 18 years old, are citizens or residents of the United States of America and are not covered under another plan. Non-union represented employees hired after June 30, 2008 are eligible to participate in this Plan in lieu of a defined benefit pension plan. The Benefit Plan Administrative Committee of the Company controls and manages the operation and administration of the Plan. State Street Bank and Trust Company (State Street or the Trustee) serves as the Trustee of the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

All of the Plan s investments are participant-directed. The Plan utilizes the Northrop Grumman Defined Contribution Plans Master Trust (the DC Master Trust) for its investments, except for the temporary (short-term) investments and participant-directed brokerage accounts held in the Charles Schwab Personal Choice Retirement Account (PCRA).

Certain employees hired or re-hired on or after July 1, 2008 who meet requirements, are eligible to receive an additional employer contribution known as a Retirement Account Contribution. Retirement Account Contributions are calculated and credited for each payroll date.

Contributions Plan participants may contribute between 1 percent and 75 percent of eligible compensation in increments of 1 percent, on a tax-deferred (before-tax) basis, Roth 401(k), or an after-tax basis, or a combination thereof through payroll withholdings. An active participant may change the percentage of his or her contributions at any time. Effective January 1, 2007, first time eligible employee (newly hired, rehired or certain transfers) participants will be enrolled automatically into the Plan at a 2 percent tax-deferred contribution rate approximately 45 days after the date of hire, rehire or transfer unless an alternative election is made. Such contributions will be automatically increased by 1 percent each year thereafter. Contributions are subject to certain limitations imposed by the Internal Revenue Code of 1986, as amended (the Code).

The Company s matching contributions are generally as follows:

Employee Contribution	Company Match
First 2 percent of eligible compensation	100 percent
Next 2 percent of eligible compensation	50
Next 4 percent of eligible compensation	25
Contribution over 8 percent	0

The Company will credit participants who meet eligibility requirements with a Retirement Account Contribution each pay period in an amount determined as a percentage of eligible compensation for each pay period in accordance with the following table:

Participant s Age	Percentage of Compensation
Less than 35	3 percent
35 49	4
50 or older	5

Participant Accounts A separate account is maintained for each participant. Each participant s account is increased or decreased with the participant s contribution, withdrawals and allocations of (a) the Company s contribution, (b) Plan earnings/losses, and (c) administrative expenses. Allocations are based on participant earnings on account balances, as defined in the Plan document. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

Vesting Plan participants are fully vested (100 percent) at all times in the balance of their accounts (both employee and employer contributions except for Retirement Account Contributions), none of which may be forfeited for any reason.

Plan participants will be fully vested in their Retirement Account Contributions, and earnings thereon, upon the completion of three years of vesting service.

Investment Options Upon enrollment in the Plan, each participant directs their contributions and Company contributions, in 1 percent increments, to be invested in any of the following investment funds. The investment funds are managed by an independent professional investment manager appointed by the Plan s Investment Committee.

U.S. Equity Fund The U.S. Equity Fund consists predominantly of holdings in large and medium sized U.S. company stocks. The fund s objectives are to achieve a high total return through long term growth of capital and the reinvestment of current income.

U.S. Fixed Income Fund The U.S. Fixed Income Fund primarily consists of holdings in marketable, fixed income securities rated within the three highest investment grades assigned by Moody s Investor Services or Standard & Poor s Corporation, U.S. Treasury or federal agency obligations, or cash equivalent instruments. The fund is broadly diversified by investing in a wide range of fixed income securities that mature, on average, in 8 to 10 years.

Stable Value Fund The Plan holds an interest in the Northrop Grumman Stable Value Fund (the Stable Value Fund , see Note 6). Investments of the Stable Value Fund are diversified among U.S. government securities and obligations of government agencies, bonds, short-term investments, cash and investment contracts issued by insurance companies and banks.

Northrop Grumman Fund The Northrop Grumman Fund (NG Stock Fund) invests primarily in Northrop Grumman Corporation common stock.

Balanced Fund The Balanced Fund is designed to provide investors with a fully diversified portfolio consisting of targeted proportions of fixed income securities (35 percent), U.S. equities (45 percent), and international equities (20 percent). The fund seeks to exceed the return of the bond market and approach the return of the stock market, but with less risk than an investment only in stocks.

International Equity Fund The International Equity Fund consists of stocks of a diversified group of companies in developed countries outside the United States. The fund s objectives are capital appreciation over the long term, along with current income (dividends).

Small Cap Fund The Small Cap Fund consists of a diversified group of U.S. companies with lower market capitalization and higher revenue growth than the large, well established companies that make up the S&P 500 Index. The objective is capital appreciation over the long term, rather than to provide current income.

Emerging Markets Fund The Emerging Markets Fund consists of a diversified portfolio of stocks issued by companies based in developing countries. The fund s objective is capital appreciation over the long term.

Schwab Personal Choice Retirement Account The PCRA consists of more than 4,700 mutual funds, more than 400 fund families and the option to invest in individual stocks and bonds.

Retirement Path Portfolios Each Retirement Path is a broadly diversified portfolio of funds consisting of equities, fixed income securities and other investments tailored to the investment time horizon of the investor. The name of each strategy reflects the year when the investor will most likely begin to draw interest and/or principal out of their portfolio. The portfolios are the Retirement Path, the 2020 Retirement Path, the 2030 Retirement Path, the 2040 Retirement Path, and the 2050 Retirement Path.

Participants may change their investment direction daily. Existing account balances can be transferred daily, subject to certain restrictions.

Contributions deposited into each investment fund buy units of that fund based on unit values that are updated daily prior to any Plan transactions, including contributions, withdrawals, distributions and transfers. The value of each participant s account within each fund depends on two factors: (1) the number of units purchased to date and (2) the current value of each unit.

Participant Loans Participants may borrow from their fund accounts with loans of a minimum of $1,000, up to a maximum equal to the lesser of $50,000, reduced by the highest outstanding loan balance over the past 12 months, or 50 percent of their account balance (not including certain Company contributions). A participant may not have more than two outstanding loans at any given time (except for those merged from other plans). Loans will be prorated across all investment funds and are secured by the balance in the participant s account. The interest rate is fixed on the last business day of each month at the prime rate as determined by the Plan s trustee plus 1 percent. Repayments are made from payroll deductions (for active employees) or other form of payment (for former employees or employees on a leave of absence). The maximum loan period is five years. Participants may obtain fifteen year loans if used to acquire a dwelling that is the principal residence of the participant. However, loans transferred in as the result of a plan merger may have maximum loan periods greater than fifteen years. Loans may be repaid early in full; partial early repayments are not permitted. As of December 31, 2010, participant loans have maturities through 2034 at interest rates ranging from 4.25 percent to 10.5 percent.

Payment of Benefits On termination of employment with the Company (including termination due to death, disability or retirement), a participant may receive a lump sum payment of his or her entire account balance (net of any outstanding loan balances). A participant may also delay payment until age $70^{1/2}$, if the account balance exceeds $1,000. Certain partial distributions after termination of employment and before age $70^{1/2}$ are permitted by the Plan. Participants may rollover account balances to individual retirement accounts or another employer s qualified retirement plan to postpone federal and most state income taxes. Participants with frozen account balances under a previous savings plan may be eligible to elect special distribution options under the previous plan.

Distributions from the NG Stock Fund will be paid in cash, stock, or a combination of both, depending on the participant s election.

Withdrawals A participant may withdraw all or a portion of his or her after-tax contributions (plus earnings) at any time, limited to one withdrawal per quarter. In addition, a participant may withdraw all or a portion of his or her Company matching contribution (plus earnings) at any time, also limited to one withdrawal per quarter. A participant may withdraw all or a portion of his or her before-tax contributions for any reason after reaching age $59^{1/2}$, or prior to reaching age $59^{1/2}$, in the case of hardship (as described in the plan document). Withdrawals are limited to the amount of a participant s account balance net of any loan balances outstanding and are subject to tax withholding as appropriate.

Plan Mergers Three savings plans were merged into the Plan during 2010. In connection with the mergers, net assets available for plan benefits of $53,338,000 were transferred into the Plan related to the three merged savings plans participant accounts.

2. SIGNIFICANT 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 (GAAP).

Use of Estimates The preparation of financial statements in conformity with GAAP 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.

Risks and Uncertainties The Plan invests in various securities, including U.S. and foreign government securities, corporate debt instruments and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, U.S. and foreign government and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities may occur in the near term, and those changes could materially affect the amounts reported in the financial statements.

Investment Valuation and Income Recognition The Plan s investments are stated at fair value as determined by the Trustee pursuant to the DC Master Trust Agreement as directed and overseen by the Investment Committee. The Plan s investments, including the underlying investments in the DC Master Trust and PCRA, are valued as follows:

Investments in common and preferred stock are valued at the last reported sales price of the stock on the last business day of the plan year. The shares of registered investment companies are valued at quoted market prices that represent the net asset values of shares held by the Plan at year end. Investments in common/collective trust funds are valued based on the redemption price of units owned by the Plan, which is based on the current fair value of the funds underlying assets. Fair values for securities are based on information in 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 in such securities (investment managers, the Investment Committee, or in the case of participant-directed brokerage accounts, the participant s broker, as applicable).

Synthetic guaranteed investment contracts (SICs) held by the Plan through the Stable Value Fund of the DC Master Trust are recorded at fair value. The fair value of the SICs equals the total fair value of the underlying assets plus the total wrapper contract rebid value, which is calculated by discounting the excess annual rebid fee over the duration of the contract assets. The SICs are considered to be fully benefit-responsive and therefore their carrying value is adjusted from fair market value to contract value in the Statements of Net Assets Available for Benefits.

All securities and cash or cash equivalents are quoted in the local currency and then converted into U.S. dollars using the appropriate exchange rate obtained by the Trustee. Purchases and sales of securities 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 in connection with the purchase, sale, or other disposition of securities or other investments are added to the cost of such 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 whose interests in the Plan are affected, and the share of such taxes apportioned to each such person is charged against his or her account in the Plan.

The Trustee relies on the prices provided by pricing sources, 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.

The DC Master Trust allocates investment income, realized gains and losses, and unrealized appreciation and depreciation on the underlying securities to the participating plans daily based upon the market value of each plan s investment. The unrealized appreciation or depreciation amount is the aggregate difference between the current fair market value and the cost of investments. The realized gain or loss on investments is the difference between the proceeds received and the average cost of investments sold.

Participant Loans Participant loans are measured at their outstanding balances plus accrued interest.

Expenses Administrative expenses of the Plan are paid by either the Plan or the Plan s sponsor as provided in the plan document.

Payment of Benefits Benefit payments to participants are recorded upon distribution. Amounts allocated to accounts of participants who have elected to withdraw from the Plan but have not yet been paid were $3,305,000 and $2,312,000 at December 31, 2010 and 2009, respectively, and such amounts continue to accrue investment earnings/(losses) until paid.

New Accounting Standards The accounting standard initially adopted in the 2010 financial statements is described below.

Reporting Loans to Participants by Defined Contribution Pension Plans In September 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2010-25 (ASU No. 2010-25), *Reporting Loans to Participants by Defined Contribution Pension Plans*. The ASU requires that participant loans be classified as notes receivable rather than a plan investment and measured at unpaid principal balance plus accrued but unpaid interest. ASU No. 2010-25 is effective for periods beginning after December 15, 2010 with early adoption permitted. The Plan retrospectively adopted the new accounting in 2010 for the prior period presented. The adoption segregated participant loans from Plan investments on the statement of net assets available for benefits and classified them as receivables. Related interest income from participant loans were segregated from investment income on the statement of changes in net assets available for benefits. Participant loans were removed from the fair value hierarchy disclosure as described in note 5.

Accounting Standards Updates Not Yet Effective Accounting standards updates not effective until after December 31, 2010, are not expected to have a significant effect on the Plan s statements of net assets available for benefits or the statement of changes in net assets available for benefits.

3. INVESTMENTS

The Plan s investments consist of a proportionate interest in certain investments held by the DC Master Trust. Those investments are stated at fair values determined and reported by the Trustee, in accordance with the DC Master Trust Agreement established by the Company.

Proportionate interests of each participating plan are determined based on the standard trust method of accounting for master trust arrangements. Plan assets represent 92 and 91 percent of total net assets reported by the Trustee of the DC Master Trust as of December 31, 2010 and 2009, respectively.

The net assets of the DC Master Trust as of December 31, 2010 and 2009 are as follows ($ in thousands):

	2010	2009
Assets:		
Common/collective trust funds	$ 6,489,038	$ 5,163,588
Synthetic guaranteed investment contracts	3,080,389	3,159,952
Common and preferred stock	3,344,821	3,193,191
Cash equivalents and temporary investments	279,249	140,649
U.S. and foreign government securities	435,237	234,102
Corporate debt instruments	174,550	380,322
Asset-backed securities and other investments	51,300	100,154
Assets on loan to third party borrowers	1,730,020	1,541,189
Collateral held under securities lending agreements	1,767,078	1,575,713
Total investments	17,351,682	15,488,860
Receivable for investments sold	6,458	66,009
Dividends, interest, taxes and other receivable	9,428	11,484
Total assets	17,367,568	15,566,353
Liabilities:		
Collateral held under securities lending agreements	1,767,078	1,575,713
Due to broker for securities purchased	143,712	66,937
Accrued expenses		96
Total liabilities	1,910,790	1,642,746
Net assets of the DC Master Trust at fair value	15,456,778	13,923,607
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(204,747)	(149,375)
Net assets of the DC Master Trust	$ 15,252,031	$ 13,774,232

Investment income for the DC Master Trust for the Plan year ended December 31, 2010 is as follows ($ in thousands):

Investment income (loss):	
Net appreciation (depreciation) in fair value of investments:	
U.S. and foreign government securities	$ 11,398
Cash equivalents and temporary investments	(33)
Asset-backed securities and other investments	1,745
Corporate debt instruments	14,930
Common/collective trust funds	558,253
Common and preferred stock	633,256
Net appreciation	1,219,549
Dividends	108,407
Interest	205,516
Stock loan income	1,777
Other income	1,835
Other expenses	(13,257)
Investment manager fees	(25,403)
Total investment income	$ 1,498,424

Investments, other than the Plan s investment in the DC Master Trust, that represent 5 percent or more of the Plan s net assets available for Plan benefits as of December 31, 2010 and 2009 are as follows ($ in thousands):

	2010	2009
Schwab Personal Choice Retirement Account	$ 1,187,713	$ 1,049,895

The DC Master Trust participates in a securities lending program with the Trustee. The program allows the Trustee to loan securities, which are assets of the DC Master Trust, to approved borrowers. The Trustee requires borrowers, pursuant to a security loan agreement, to deliver collateral to secure each loan. The collateral required is 102 percent of the fair value of U.S. securities borrowed and 105 percent for foreign securities borrowed. The Plan bears the risk of loss with respect to any unfavorable change in fair value of the invested cash collateral. However, the borrower bears the risk of loss related to the decrease in the fair value of the securities collateral and, therefore, may have to deliver additional cash or securities to maintain the required collateral. In the event of default by the borrower, the Trustee shall indemnify the DC Master Trust against any loss of the amount loaned. DC Master Trust Assets on loan to third party borrowers under security lending agreements at December 31, 2010 and 2009 are as follows ($ in thousands):

	2010	2009
Underlying securities of synthetic guaranteed investment contracts	$ 1,164,182	$ 965,175
Common and preferred stock	310,142	356,201
U.S. and foreign government securities	225,454	155,644
Corporate debt instruments	30,242	61,226
International common and preferred stock		2,943
Total DC Master Trust Assets on loan to third party borrowers	$ 1,730,020	$ 1,541,189

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 DC Master Trust. The DC Master Trust held $1,767,078,000 and $1,575,713,000 of collateral for securities on loan as of December 31, 2010 and 2009, respectively, consisting primarily of cash equivalents.

4. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments may be used by the investment managers of the DC Master Trust as part of their respective strategies. These strategies include the use of futures contracts, interest rate swaps, options on futures and options as substitutes for certain types of securities. Notional amounts disclosed below do not quantify risk or represent assets or liabilities of the DC Master Trust, but are used in the calculation of the cash settlements under the contracts.

The fair value of these instruments is recorded as investments of the DC Master Trust. To the extent that a gain has been recognized, these instruments are recorded as assets and to the extent that a loss has been recognized, these instruments are recorded as liabilities. Changes in the fair value of the derivative instrument are reflected in investment income as appreciation (depreciation) in the DC Master Trust. As of December 31, 2010 and 2009, these derivative financial instruments were held for trading purposes. The notional amounts and fair values are presented as gross assets and liabilities as of December 31, 2010 and 2009 as follows ($ in thousands):

	2010			2009		
	Notional Amount	**Fair Value Asset**	**Fair Value (Liability)**	**Notional Amount**	**Fair Value Asset**	**Fair Value (Liability)**
Futures Contracts:						
U.S. Treasury	$(87,709)	$2,831	$(1,610)	$116,672	$2,994	$(4,037)
Eurodollar				247,021	1,291	(78)
Index				290	16	
Interest rate swaps	23,961	649	(4,054)	104,826	2,718	(1,383)
Options on futures and swap rates				(68,732)		(1,632)

Futures Contracts The DC Master Trust enters into futures contracts in the normal course of investing activities to manage market risk associated with equity and fixed income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the statements of net assets available for benefits. The credit risk associated with these contracts is minimal as they are traded on organized exchanges and settled daily. The terms of these contracts typically do not exceed one year. Notional amounts related to these contracts in the table above are stated as a net buy (sell) position.

Interest Rate Swaps The DC Master Trust enters into interest rate swap contracts in the normal course of its investing activities to manage the interest rate exposure associated with fixed income investments. The credit risk associated with these contracts is minimal as they are entered into with a limited number of highly-rated counterparties.

Options on Futures and Swap Rates The DC Master Trust enters into option contracts in the normal course of its investing activities to manage the interest rate exposure associated with fixed income investments. The credit risk associated with these contracts is minimal as they are entered into with a limited number of highly-rated counterparties. Notional amounts related to these contracts in the table above are stated as a net buy (sell) position.

5. FAIR VALUE MEASUREMENTS

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements.

The valuation techniques utilized are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets. Level 1 investments of the DC Master Trust and the Plan primarily include common stock, preferred stock, open-end mutual funds, closed-end mutual funds based on pricing, frequency of trading and other market considerations.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable. Level 2 investments of the DC Master Trust and the Plan primarily include common and collective trust funds based on the use of net asset valuations derived by investment managers and fixed income securities based on model-derived valuations.

Level 3 Significant inputs to the valuation model are unobservable. There were no Level 3 investments in the Plan as of December 31, 2010 and 2009.

There have been no transfers of investments between Level 1 and Level 2 during 2010 and 2009.

The following tables set forth by level the fair value hierarchy the investments held by the DC Master Trust and the Plan as of December 31, 2010 and 2009 ($ in thousands).

	Level 1	Level 2	Total
As of December 31, 2010			
DC Master Trust:			
Cash equivalents		$ 276,746	$ 276,746
Equities:			
Domestic	$ 3,625,074		3,625,074
Common/collective trust funds:			
Domestic		2,285,012	2,285,012
International		2,311,311	2,311,311
Retirement Path Funds		903,555	903,555
Real estate	29,737	134	29,871
Total equities	3,654,811	5,500,012	9,154,823
Fixed income:			
U.S. treasuries		305,445	305,445
Corporate debt		201,952	201,952
Asset-backed		334,934	334,934
Common/collective trust funds		989,159	989,159
Other U.S. government agency		58,814	58,814
Non U.S. government agency		15,638	15,638
Total fixed income		1,905,942	1,905,942
Guaranteed investment contracts:			
Common/collective trust funds			