NORTHROP GRUMMAN CORP /DE/
Form DEF 14A
April 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [_]

Check the appropriate box:

[_] Preliminary Proxy Statement

[_] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))

[X] Definitive Proxy Statement

[_] Definitive Additional Materials

[_] Soliciting Material Pursuant to (S) 240.14a-11(c) or (S) 240.14a-12

Northrop Grumman Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[_] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

[_] Fee paid previously with preliminary materials.

[_] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

Notes:

Reg. (S) 240.14a-101.

SEC 1913 (3-99)

[LOGO OF NORTHROP GRUMMAN]

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
AND PROXY STATEMENT

NOTICE

The Annual Meeting of Stockholders of Northrop Grumman Corporation ("Northrop Grumman") will be held on Wednesday, May 16, 2001 at 10:00 a.m. at the Fairmont Miramar Hotel, 101 Wilshire Boulevard, Santa Monica, California 90401.

Stockholders at the close of business on April 9, 2001 are entitled to vote at the Annual Meeting. The following items are on the agenda:

(1) Election of three Class I directors, each for a three year term expiring in 2004;

(2) Proposal to ratify the appointment of Deloitte & Touche LLP as Northrop Grumman's independent auditors for fiscal year ending December 31, 2001;

(3) Proposal to approve the 2001 Long-Term Incentive Stock Plan;

(4) Proposal to approve the issuance of shares of Common Stock, par value $1.00 per share, upon conversion of the Series B Preferred Stock to be issued in the acquisition of Litton Industries, Inc.;

(5) Proposal to amend Northrop Grumman's Certificate of Incorporation to increase the number of authorized shares of common stock;

(6) Stockholder proposal regarding offset commitments;

(7) Stockholder proposal regarding super majority vote;

(8) Stockholder proposal regarding classified board;

(9) Stockholder proposal regarding Shareholder Rights Plan;

(10) Other business as may properly come before the Annual Meeting or any adjournments thereof.

By order of the Board of Directors,

/s/ John H. Mullan

John H. Mullan
Corporate Vice President and
Secretary

1840 Century Park East
Los Angeles, California 90067

April 16, 2001

IMPORTANT

To assure your representation at the Annual Meeting, please sign, date and return the enclosed proxy card for which a return envelope is provided. No postage is required if mailed in the United States.

You may also vote by telephone or over the Internet. For instructions on electronic voting please see page 2 of this Proxy Statement or the proxy card.

PROXY STATEMENT

GENERAL INFORMATION

This proxy statement is issued in connection with solicitation of the enclosed proxy by the Board of Directors of Northrop Grumman Corporation ("Northrop Grumman") for use at Northrop Grumman's 2001 Annual Meeting of Stockholders (the "Annual Meeting"). Northrop Grumman's principal office is located at 1840 Century Park East, Los Angeles, California, 90067. This proxy material will be sent to stockholders beginning approximately April 16, 2001.

As previously announced, Northrop Grumman (organized in January 2001 under the name NNG, Inc.) entered into an Amended and Restated Agreement and Plan of Merger dated January 23, 2001, pursuant to which it offered to acquire all of the outstanding stock of Litton Industries, Inc. ("Litton") in exchange for cash and stock. Effective as of midnight April 2, 2001, Northrop Grumman purchased approximately 97.3% of Litton's outstanding common stock and issued 13,000,000 shares of Northrop Grumman common stock and 3,500,000 shares of Northrop Grumman Series B Preferred Stock, pursuant to the offer. Immediately prior to the acquisition, Northrop Grumman became the sole stockholder of the former Northrop Grumman Corporation, which thereupon changed its name to "Northrop Grumman Systems Corporation" the ("Northrop reorganization.") In the Northrop reorganization, all of the outstanding shares of capital stock of the former Northrop Grumman Corporation became the same number of shares of the same class of capital stock of Northrop Grumman as the new holding company. Outstanding options to acquire common stock of the former Northrop Grumman Corporation became options to acquire common stock of Northrop Grumman as the new holding company. The certificate of incorporation and bylaws of Northrop Grumman as the new holding company are identical, in all material respects, to the certificate of incorporation and bylaws of the former Northrop Grumman Corporation, and Northrop Grumman as the new holding company has adopted a stockholder rights plan which is identical, in all material respects, to the stockholder rights plan of the former Northrop Grumman Corporation. The directors and officers of the former Northrop Grumman Corporation will constitute the board of directors and officers of Northrop Grumman as the new holding company. The common stock of Northrop Grumman as the new holding company is listed for trading on the New York Stock Exchange ("NYSE"), and certificates representing shares of the former Northrop Grumman Corporation common stock will continue to represent shares of common stock of Northrop Grumman, as the new holding company. No vote of the stockholders of Northrop Grumman was required for the Northrop reorganization.

OUTSTANDING SECURITIES

On April 9, 2001 there were 85,290,457 shares of Northrop Grumman's common stock, par value $1.00 per share ("Common Stock"), outstanding. Holders of record of Common Stock at the close of business on April 9, 2001 are entitled to vote at the Annual Meeting. Each share of Common Stock is entitled to one vote on each proposal.

VOTING AT THE MEETING OR BY PROXY

Shares represented by a properly executed proxy/voting instruction in the accompanying form will be voted at the meeting in accordance with the stockholder's instructions. If no instructions are given, the shares will be voted according to the Board of Directors' recommendations. Therefore, if no instructions are given, the persons named on the card will vote FOR Proposal One to elect the three director nominees listed under "Election of Directors", FOR Proposal Two to ratify the appointment of Deloitte & Touche LLP as auditors of Northrop Grumman for the year ending December 31, 2001, FOR Proposal Three to approve the 2001 Long-Term Incentive Stock Plan, FOR Proposal Four to approve the issuance of shares of Common Stock upon the conversion of the Preferred Stock, FOR Proposal Five to amend Northrop Grumman's Certificate of Incorporation to increase the number of authorized shares of Common Stock, AGAINST Proposal Six, the stockholder proposal regarding offset commitments, AGAINST Proposal Seven, the stockholder proposal regarding super majority vote, AGAINST Proposal Eight, the stockholder proposal regarding classified board and AGAINST Proposal Nine, the stockholder proposal regarding the Shareholder Rights Plan. For those shares held in Northrop Grumman's employee stock ownership plans, if no instructions are provided, the applicable trustee will vote the respective plan shares according to the provisions of the applicable plan documents.

A stockholder who executes a proxy/voting instruction may revoke it at any time before its exercise by delivering a written notice of revocation to the Corporate Secretary or by signing and delivering another proxy that is dated later. A stockholder attending the meeting in person may revoke the proxy/voting instruction by giving notice of revocation to an inspector of election at the meeting or voting at the meeting. If any other matters are properly brought before the meeting, the enclosed proxy/voting instruction card gives discretionary authority to the persons named on the card to vote the shares in their best judgment.

With respect to the election of directors, stockholders may vote in favor of all nominees, or withhold their votes as to all nominees or specific nominees. There is no box to "abstain", but checking the box on the enclosed proxy/voting instruction card that withholds authority to vote for a nominee is the equivalent of abstaining. The three nominees receiving the greatest number of votes cast for the election of directors by shares entitled to vote and present in person or by proxy at the Annual Meeting will be elected directors. With respect to any proposal other than the election of directors, stockholders may vote in favor of the proposal, or against the proposal or abstain from voting.

Brokers who hold shares of Common Stock for the accounts of their clients may vote such shares either as directed by their clients or in their own discretion if permitted by the stock exchange or other organization of which they are members. Members of the New York Stock Exchange are permitted to vote their clients' proxies in their own discretion as to the election of directors if the clients have not furnished voting instructions within ten days of the meeting. Certain proposals other than the election of directors are "non-discretionary" and brokers who have received no instructions from their clients do not have discretion to vote on those items. When a broker votes a client's shares on some but not all of the proposals at a meeting, the missing votes are referred to as "broker non-votes".

Broker non-votes will have no effect on the election of directors (Proposal One) or the ratification of the selection of Deloitte & Touche as Northrop Grumman's independent accountants (Proposal Two). Broker non-votes will have no effect on the proposals concerning approval of the 2001 Long-Term Incentive Stock Plan (Proposal Three) and the authorization of issuance of common stock upon conversion of Series B preferred stock (Proposal Four), provided that holders of over 50% of the outstanding shares of common stock cast votes on each of these two proposals. A broker non-vote or an abstention will have the same effect as a vote against the proposed amendment to the Certificate of Incorporation to increase the number of authorized shares of common stock (Proposal Five). Broker non-votes will have no effect on the stockholder proposals (Proposals Six, Seven, Eight and Nine).

The presence in person or by proxy of stockholders entitled to cast at least a majority of the votes that all stockholders are entitled to cast shall constitute a quorum at the annual meeting. Both abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum.

VOTING BY TELEPHONE OR THE INTERNET

Registered stockholders and participants in Northrop Grumman's employee stock ownership plans may vote their shares over the telephone or on the Internet. The law of Delaware, under which Northrop Grumman is incorporated, specifically permits electronically transmitted proxies, provided that each such proxy contains or is submitted with information from which the inspectors of election can determine that such proxy was authorized by the shareholder. The voting procedures available to registered shareholders for the Annual Meeting are designed to authenticate each shareholder by use of a Control Number, to allow shareholders to vote their shares, and to confirm that their instructions have been properly recorded.

Registered shareholders and plan participants may go to http://www.eproxyvote.com/noc to vote on the Internet. They will be required to provide the Control Numbers contained on their proxy cards. After providing the correct Control Number, the voter will be asked to complete an electronic proxy card. The votes will be generated on the computer screen and the voter will be prompted to submit or revise them as desired. Any registered shareholder or plan participant using a touch-tone telephone may also vote by calling 1-877-779-8683 (toll-free) and following the recorded instructions.

Most beneficial owners whose stock is held in street name receive voting instruction forms from their banks, brokers or other agents, rather than Northrop Grumman's proxy/voting instruction card. Beneficial owners may also be able to vote by telephone or the Internet. They should follow the instructions on the form they receive from their bank, broker, or other agent.

The method of voting used will not limit a stockholder's right to attend the Annual Meeting.

VOTING SECURITIES

Based on information available to it Northrop Grumman believes the following entities beneficially owned more than five percent of the outstanding Common Stock as of the record date:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
State Street Bank and Trust Company(a).......... 225 Franklin St., Boston, MA 02110	5,541,069 shares	6.49%
Wellington Management Company, LLP(b)........... 75 State Street, Boston, MA 02109	9,015,500 shares	10.57%
U.S. Trust Company, N.A.(c)(d).................. 555 So. Flower St., Los Angeles, CA 90071-2429	9,633,326 shares	11.29%
Unitrin, Inc.(e)................................ One East Wacker Drive Chicago, IL 60601	7,700,000 shares	9.03%

(a) This information was provided by State Street Bank and Trust Company ("State Street") in a Schedule 13G filed with the SEC on February 12, 2001. According to State Street, as of December 31, 2000, State Street had sole voting power over 1,263,552 shares, shared voting power over 4,238,561 shares, sole dispositive power over 5,538,758 and shared dispositive power over 2,311 shares. This total includes 4,078,898 shares held for the account of employee participants in the Employee Stock Ownership Plan portion of the Northrop Grumman Savings and Investment Plan for which State Street acts as a trustee.

(b) This information was provided by Wellington Management Company, LLP ("Wellington") in a Schedule G filed with the SEC on February 14, 2001. According to Wellington, as of December 31, 2000, Wellington had shared voting power over 5,838,900 and shared dispositive power over 8,991,500.

(c) This information was provided by U.S. Trust Company, N.A. ("U.S. Trust Company") in a Schedule 13G filed with the SEC on January 18, 2001. U.S. Trust Company is an Investment Manager (the "Investment Manager") for the Northrop Grumman Pension Plan and the pension plans for certain divisions of Northrop Grumman (the "Pension Plans"); Northrop Grumman has established a Master Trust with State Street Bank and Trust Company as Trustee ("Trustee"). Under the Master Trust, the Investment Manager has responsibility for the management and control of the Northrop Grumman shares held in the Master Trust as assets of the Pension Plans. The Investment Manager has sole dispositive and voting power over 9,633,326 shares held in the Master Trust between Northrop Grumman Corporation and the Trustee.

(d) These shares are held for the account of (but not beneficially owned by) the Trustee. The Investment Manager has voting power over these shares, except in the event of a contested election of directors or in connection with a tender offer. In such cases, the shares are voted in accordance with instructions received from eligible participants in the Pension Plans and undirected shares are voted in the same proportion as shares for which instructions are received.

(e) This information was obtained from a press release issued on April 10, 2001 by Unitrin, Inc. in which it estimated the total number of shares Unitrin and its subsidiaries would receive in exchange for its holdings of Litton common stock pursuant to Northrop Grumman's tender offer for Litton. This number of shares held by Unitrin is an approximate number.

Stock Ownership of Officers and Directors

The following table shows beneficial ownership (as defined by applicable rules for proxy statement reporting purposes) of the Common Stock as of April 9, 2001 (the Annual Meeting record date) by each director and nominee, by the Chief Executive Officer and the other four most highly compensated executive officers (collectively, the "Named Executive Officers") and all directors and executive officers as a group. Each individual owned less than 1% of the outstanding Common Stock. Unless otherwise indicated, each individual has sole investment power and sole voting power with respect to the shares owned by such person. No family relationship exists between any of the directors or executive officers of Northrop Grumman.

	Number of	Percentage of

	Shares Beneficially Owned (6)	Outstanding Shares Beneficially Owned
Directors		
Jack R. Borsting..................	8,892(1)	*
John T. Chain, Jr................	8,974	*
Lewis W. Coleman.................	0	*
Vic Fazio........................	1,593	*
Phillip Frost....................	18,664	*
Charles R. Larson................	59	*
Robert A. Lutz...................	8,034	*
Aulana L. Peters.................	13,349	*
John E. Robson...................	14,304	*
Richard M. Rosenberg.............	11,047	*
John Brooks Slaughter............	7,974	*
Richard J. Stegemeier............	10,353(2)	*
Ronald D. Sugar..................	0	*
Named Executive Officers		
Kent Kresa (3)...................	651,334(4)	*
Richard B. Waugh, Jr.............	68,544(5)	*
Herbert W. Anderson..............	29,672	*
James G. Roche...................	61,149	*
Ralph D. Crosby, Jr.	56,802	*
Directors and Executive Officers as a Group (24 persons)..............	1,101,866	1.29

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* The percentage of shares of Common Stock beneficially owned does not exceed one percent of the outstanding shares of Common Stock.

(1) Includes 1,200 shares held in the Borsting Family Trust of which Dr. Borsting is trustee.

(2) Includes 1,000 shares held in the Richard J. Stegemeier Family Trust of which Mr. Stegemeier and his wife are trustees.

(3) Mr. Kresa also serves as Chairman of the Board.

(4) Includes 461,925 shares held by the Kresa Family Trust of which Mr. Kresa is trustee.

(5) Includes 46,392 shares held by the Waugh Family Trust of which Mr. Waugh and his wife are trustees.

(6) Includes options exercisable within 60 days and shares or share equivalents beneficially owned under one or more of Northrop Grumman's compensation or benefit plans, respectively, as follows: J.R. Borsting 6,500 and 0 shares; J.T. Chain 7,000 and 0 shares; L.W. Coleman 0 and 0 shares; V. Fazio 1,500 and 0 shares; P. Frost 6,500 and 1,203 shares; C.R. Larson 0 and 0 shares; R.A. Lutz 6,000 and 564 shares; A.L. Peters 7,000 and 2,777 shares; J.E. Robson 7,000 and 2,577 shares; R.M. Rosenberg 7,000 and 0 shares; J.B. Slaughter 7,000 and 0 shares; R.J. Stegemeier 7,000 and 0 shares; Ronald D. Sugar 0 and 0 shares; K. Kresa 184,123 and 5,286 shares; R.B. Waugh 18,750 and 3,402 shares; H.W. Anderson 27,000 and 1,474 shares; J.G. Roche 41,250 and 606 shares; and R.D. Crosby 31,250 and 2,885 shares.

PROPOSAL ONE: ELECTION OF DIRECTORS

Northrop Grumman's Certificate of Incorporation provides for a classified Board of Directors. Three directors in Class I will be elected at the 2001 Annual Meeting to hold office for three years until the 2004 Annual Meeting of Stockholders or until their successors have been elected and qualified. Unless instructed otherwise, the persons named in the accompanying proxy will vote the shares represented by such proxy for the election of the three Class I Director Nominees listed in the table below. Each of the three Class I Director Nominees has consented to serve, and the Board does not know of any reason why any of them would be unable to serve. If a nominee becomes unavailable or unable to serve before the Annual Meeting (for example, due to serious illness), the Board can either reduce its size or designate a substitute nominee. If any nominee becomes unavailable for election to the Board of Directors, an event that is not anticipated, the persons named as proxies have full discretion and authority to vote or refrain from voting for any other nominee in accordance with their judgment.

The following information, furnished with respect to each of the three nominees for election as a Class I director, and each of the four Class II and four Class III directors whose terms continue after the Annual Meeting, is obtained from Northrop Grumman's records or from information furnished directly by the individual to Northrop Grumman. All the nominees are presently serving on the Board of Directors. Members of the Board of Directors are generally ineligible to stand for election if they will have attained age 70 by the date of Northrop Grumman's Annual Meeting of Stockholders at which such election is held. Jack R. Borsting, Richard M. Rosenberg and Richard J. Stegemeier, all Class I directors, are ineligible to stand for election by reason of this policy.

All of the following directors first became directors of NNG, Inc. in 2001.

NOMINEES DIRECTOR -- CLASS I

LEWIS W. COLEMAN, 59.President, Gordon and Betty Moore Foundation.

Director since 2001

Lewis W. Coleman became President of the Gordon and Betty Moore Foundation in January 2001. In December 2000, he resigned as Chairman of Banc of America Securities, LLC, a subsidiary of Bank of America Corporation after having served in that position since joining Banc of America Securities, LLC in December 1995. Prior to that, he spent ten years at BankAmerica Corporation where he held various positions including Chief Financial Officer, head of World Banking Group and head of Capital Markets. Previous to that he spent thirteen years with Wells Fargo & Co. in a variety of wholesale and retail banking positions. He is also on the Board of Directors of Chiron Corporation.

KENT KRESA*, 63. Chairman, President and Chief Executive Officer.

Director since 1987

Before joining Northrop Grumman, Kent Kresa was associated with the Lincoln Laboratory of M.I.T. and the Defense Advanced Research Projects Agency of the Department of Defense. In 1975, he joined Northrop Grumman as Vice President and Manager of Northrop Grumman's Research and Technology Center. He became General Manager of the Ventura Division in 1976, Group Vice President of the Aircraft Group in 1982 and Senior Vice President for Technology and Development in 1986. Mr. Kresa was elected President and Chief Operating Officer of Northrop Grumman in 1987. He was named Chief Executive Officer in 1989 and Chairman of the Board in 1990. Mr. Kresa is a member of the National Academy of Engineering and is past Chairman of

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* Mr. Kresa serves on the Board of Directors as part of the class of directors with terms expiring in 2003. In order to apportion the directors among the three classes as evenly as possible, Mr. Kresa has been nominated for election this year and upon his election, will resign from the class of 2003, which will then have four members.

the Board of Governors of the Aerospace Industries Association and Chairman of the Defense Policy Advisory Committee on Trade. He is also an Honorary Fellow of the American Institute of Aeronautics and Astronautics and a member of the M.I.T. Lincoln Library Advisory Board. He serves on the Board of Directors of the W.M. Keck Foundation and on the Board of Trustees of the California Institute of Technology, and serves as a director of Avery Dennison Corporation, the Los Angeles World Affairs Council, the John Tracy Clinic and Eclipse Aviation Corporation. He is also a Member of the Corporation, Draper Laboratories, Inc. and serves on the Board of Governors of the Performing Arts Center of Los Angeles.

AULANA L. PETERS, 59. Retired Partner, Gibson, Dunn & Crutcher.

Director since 1992

Aulana L. Peters is a retired partner of the law firm of Gibson, Dunn & Crutcher where she was a partner from 1988 to December 2000. Effective January 1, 2001 she was elected to the Public Oversight Board of the AICPA. From 1984 to 1988 she served as Commissioner of the Securities and Exchange Commission. Ms. Peters is a director of Callaway Golf Company, Minnesota Mining and Manufacturing Company, and Merrill Lynch & Co., Inc. She is also a member of the Board of Directors of Community Television for Southern California (KCET). Ms. Peters served as a member of the Financial Accounting Standards Board Steering Committee for its Financial Reporting Project and as a member of the Public Oversight Board's Panel on Audit Effectiveness.

Vote Required

The vote of a plurality of the shares of Common Stock voting at the Annual Meeting is required for the election of directors.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE THREE NOMINEES FOR DIRECTOR LISTED ABOVE.

CONTINUING DIRECTORS -- CLASS II

PHILLIP FROST, 64. Chairman of the Board and Chief Executive Officer, IVAX Corporation, a pharmaceutical company.

Director since 1996

Dr. Phillip Frost has served as Chairman of the Board of Directors and Chief Executive Officer of IVAX Corporation since 1987 and served as President from 1991 to 1995. Dr. Frost was Chairman of the Department of Dermatology at Mt. Sinai Medical Center of Greater Miami, Miami Beach, Florida from 1972 to 1990 and was Chairman of the Board of Directors of Key Pharmaceuticals, Inc. from 1972 to 1986. He is Chairman of Whitman Education Group and Vice Chairman of Continucare Corporation. He is also Vice Chairman of the Board of Trustees of the University of Miami and is a member of the Board of Governors of the American Stock Exchange.

ROBERT A. LUTZ, 69. Chairman of the Board and Chief Executive Officer, Exide Corporation, a battery manufacturing company.

Director since 1997

Robert A. Lutz has served as Chairman and Chief Executive Officer of Exide Corporation since December 1998. He also served as President of Exide

Corporation from December 1998 through May 2000. Previously he had joined Chrysler Corporation in 1986 as Executive Vice President of Chrysler Motors Corporation and was elected a director of Chrysler Corporation that same year. He was elected President in 1991 and Vice Chairman in 1996. He retired from Chrysler Corporation in July 1998. Prior to joining Chrysler Corporation, Mr. Lutz held senior positions with Ford Motor Company, General Motors Corporation Europe and Bavarian Motor Werke. He is an executive director of the National Association of Manufacturers and a member of the National Advisory Council of the University of Michigan School of Engineering, the Board of Trustees of the U.S. Marine Corps University Foundation and the Advisory Board of the University of California-Berkeley, Haas School of Business. Mr. Lutz is also a director of ASCOM Holdings, A.G. and Silicon Graphics, Inc.

JOHN E. ROBSON, 70. Senior Advisor, Robertson Stephens, a FleetBoston Financial Company, investment bankers.

Director since 1993

Since 1993 John E. Robson has been a Senior Advisor at Robertson Stephens. From 1989 to 1993 he served as Deputy Secretary of the United States Treasury. He was Dean and Professor of Management at the Emory University School of Business Administration from 1986 to 1989 and President and Chief Executive Officer and Executive Vice President and Chief Operating Officer of G.D. Searle & Co., a pharmaceutical company, from 1977 to 1986. Previously, he held government posts as Chairman of the U.S. Civil Aeronautics Board, regulator of the airline industry and Under Secretary of the U.S. Department of Transportation, and engaged in the private practice of law as a partner of Sidley and Austin. Mr. Robson is a director of Pharmacia Corporation and ProLogis Trust. He is also a Distinguished Visiting Fellow of the Hoover Institution at Stanford University, a Visiting Fellow at the Heritage Foundation and a director of the University of California San Francisco Foundation.

JOHN BROOKS SLAUGHTER, 67. President and Chief Executive Officer, The National Action Council for Minorities in Engineering, Inc.

Director since 1993

Dr. John Brooks Slaughter held electronics engineering positions with General Dynamics Convair and the U.S. Navy Electronics Laboratory. In 1975, he became Director of the Applied Physics Laboratory of the University of Washington. In 1977, he was appointed Assistant Director for Astronomics, Atmospherics, Earth and Ocean Sciences at the National Science Foundation. From 1979 to 1980, he served as Academic Vice President and Provost of Washington State University. In 1980, he returned to the National Science Foundation as Director and served in that capacity until 1982 when he became Chancellor of the University of Maryland, College Park. From 1988 to July 1999, Dr. Slaughter was President of Occidental College in Los Angeles and in August 1999, he assumed the position of Melbo Professor of Leadership in Education at the University of Southern California. In June 2000, Dr. Slaughter was named President and Chief Executive Officer of The National Action Council for Minorities in Engineering, Inc. He is a member of the National Academy of Engineering, a fellow of the American Academy of Arts and Sciences and serves as a director of Solutia, Inc. and International Business Machines Corporation.

CONTINUING DIRECTORS -- CLASS III

JOHN T. CHAIN, JR., 66. General, United States Air Force (Ret.) and Chairman of the Board, Thomas Group, Inc. a management consulting company.

Director since 1991

General John T. Chain has been Chairman of Thomas Group, Inc. since May 1998 and has been a member of the Board of Directors of Thomas Group since May 1995. He has also served as the President of Quarterdeck Equity Partners, Inc. since December 1996. He served as Special Assistant to the Chairman of Burlington Northern Santa Fe Corporation from November 1995 to March 1996, and as an Executive Via President of Burlington Northern from 1991 to November 1995. During his military career, General Chain's commands included military assistant to the Secretary of the Air Force, Director of Politico-Military Affairs, Department of State and Chief of Staff of Supreme Headquarters Allied Powers Europe. After serving as Commander in Chief, Strategic Air Command, he retired from the Air Force in February 1991. General Chain serves as a director of R.J. Reynolds, Inc. and Kemper Insurance Company.

VIC FAZIO, 58. Senior Partner, Clark & Weinstock, a consulting firm.

Director since 2000

Vic Fazio served as a Member of Congress for 20 years representing California's third congressional district. During that time he served as a member of the Armed Services, Budget and Ethics Committees and was a member of the House Appropriations Committee where he served as Subcommittee Chair or ranking member for 18 years. Mr. Fazio was a member of the elected Democratic Leadership in the House from 1991-1998 including four years as Chair of the Democratic Caucus, the third ranking position in the party. From 1975 to 1978 Mr. Fazio served in

the California Assembly and was a member of the staff of the California Assembly Speaker from 1971 to 1975. Upon leaving Congress in early 1999, he became a Senior Partner at Clark & Weinstock, a strategic communications consulting firm. He is a member of numerous boards including The California Institute, Coro National Board of Governors, which he chairs, the U.S. Capitol Historical Society, the Board of the U.S. Capitol Visitors Center and the Board of Visitors, The University of California at Davis Medical School.

CHARLES R. LARSON, 64. Admiral, United States Navy (Ret.)

Director since 2000

Admiral Charles R. Larson is recognized as the first Naval officer to be selected as a White House Fellow. He also served as Naval aide to the President. He served as superintendent of the U.S. Naval Academy from 1983 to 1986 and in 1991 he became senior military commander in the Pacific. He returned to U.S. Naval Academy in 1994, where he served as superintendent until 1998. Currently, Admiral Larson is Chairman of the Board of the U.S. Naval Academy Foundation, Vice Chairman of the Board of Regents of the University System of Maryland and serves on the board of directors of such organizations as Constellation Energy Group, Inc., Edge Technologies, Inc., Fluor Global Services, the Atlantic Council, Military.com and the National Academy of Sciences' Committee on International Security and Arms Control. In addition, he is a member of the Council on Foreign Relations and is a senior fellow of The CNA Corporation.

RONALD D. SUGAR, 52. President and Chief Executive Officer, Litton Industries, Inc., a subsidiary of Northrop Grumman Corporation, and Corporate Vice

President, Northrop Grumman

Director since 2001

Dr. Ronald D. Sugar was elected President and Chief Executive Officer of Litton Industries, Inc. when it became a subsidiary of Northrop Grumman on April 3, 2001, and was also elected as Corporate Vice President and a member of the Board of Directors of Northrop Grumman at that time. He joined Litton Industries as President and Chief Operating Officer in June 2000 and was elected to the Board of Directors of Litton Industries in September 2000. Dr. Sugar served as President and Chief Operating Officer of TRW Aerospace & Informations System and as a Member of the Chief Executive Office of TRW, Inc. from 1998 to 2000. He joined TRW in 1981 and served as Executive Vice President and Chief Financial Officer from 1994 to 1996 and Executive Vice President and General Manager of the TRW Automotive Electronics Group from 1996 to 1998. He is also a member of the National Security Telecommunications Advisory Committee, the Conference Board Council of Operating Executives and the Board of Governors of the Aerospace Industries Association and is a Trustee of the National Defense Industrial Association.

Committees of the Board of Directors

The Board of Directors has Audit, Compensation and Management Development, Nominating and Corporate Governance, Finance and Public Issues and Policy Committees. The membership of these committees is usually determined at the organizational meeting of the Board held in conjunction with the Annual Meeting. The membership of each committee is as follows, with the chairman listed first:

Audit	Compensation and Management Development	Nominating and Corporate Governance	Finance	Publi and
John Brooks Slaughter	John T. Chain, Jr.	Jack R. Borsting	Richard M. Rosenberg	Aulana L.
Jack R. Borsting	Jack R. Borsting	John T. Chain, Jr.	John T. Chain, Jr.	Vic Fazio
Lewis W. Coleman	Lewis W. Coleman	Vic Fazio	Lewis W. Coleman	Phillip F
Vic Fazio	Robert A. Lutz	Phillip Frost	Phillip Frost	Charles R
Charles R. Larson	John E. Robson	Richard M. Rosenberg	Robert A. Lutz	John Broo
Aulana L. Peters	Richard J. Stegemeier		John E. Robson	
Richard J. Stegemeier				

Audit Committee

The Audit Committee meets periodically with management and with both Northrop Grumman's independent auditors and Northrop Grumman's chief internal auditor to review audit results and the adequacy of

Northrop Grumman's system of internal controls. In addition, the Audit Committee recommends to the Board of Directors the appointment or discharge of Northrop Grumman's independent auditors, and reviews professional services of a non-audit nature to be provided by the independent auditors to evaluate the impact of undertaking such added services on the independence of the auditors. The Audit Committee held seven meetings in 2000.

Compensation and Management Development Committee

The Compensation and Management Development Committee (the "Compensation Committee") recommends to the Board of Directors the base salary and incentive compensation of all executive officers and takes final action with respect to base salary and incentive compensation for certain other officers and key employees. It reviews Northrop Grumman's compensation policies and management actions with respect to succession of qualified officers. The Compensation Committee also establishes Northrop Grumman's annual performance objectives under the incentive compensation plans and recommends to the Board of Directors the amounts to be appropriated for awards under such plans and under Northrop Grumman's 1973 Incentive Compensation Plan (the "1973 Incentive Plan"). The Compensation Committee grants awards under and administers Northrop Grumman's Stock Plans (as defined below) and recommends to the Board of Directors all compensation plans in which Northrop Grumman officers are eligible to participate. The Compensation Committee held seven meetings in 2000.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee reviews candidates to serve as directors and recommends to the Board of Directors nominees for election. The activities and associations of each candidate are examined to ensure that there is no legal impediment, conflict of interest or other consideration that might prevent service on the Board of Directors. In making its selection, the Board of Directors bears in mind that the foremost responsibility of a Northrop Grumman director is to represent the interests of the stockholders as a whole. The Nominating and Corporate Governance Committee will consider nominees recommended by stockholders if such nominations have been submitted in writing, accompanied both by a description of the proposed nominee's qualifications and an indication of the consent of the proposed nominee and relevant biographical information. The recommendation should be addressed to the Nominating and Corporate Governance Committee in care of the Secretary of Northrop Grumman. In addition, the Nominating and Corporate Governance Committee makes recommendations to the Board of Directors concerning the composition and size of the Board of Directors, candidates to fill vacancies, the remuneration of non-employee directors, and matters of corporate governance as appropriate. The Nominating and Corporate Governance Committee held six meetings in 2000.

Finance Committee

The Finance Committee reviews and makes recommendations concerning proposed dividend actions and issuance or repurchase of debt or equity securities. The Finance Committee considers and makes recommendations for final action by the Board on material acquisitions, mergers or divestments. The Finance Committee also reviews the investment performance of the employee benefit plans, capital asset requirements and short-term investment policy when appropriate. The Finance Committee held seven meetings in 2000.

Public Issues and Policy Committee

On March 15, 2000 the Board of Directors approved a change in name of the Executive and Public Policy Committee to the Public Issues and Policy Committee. This Committee reviews and monitors the Northrop Grumman Employees Political Action Committee and makes policy and budget recommendations to the Board on proposed charitable contributions and aid to higher education. The Public Issues and Policy Committee reviews and approves Northrop Grumman's policy for engaging the services of consultants and commission agents. The Public Issues and Policy Committee held two meetings in 2000.

BOARD AND COMMITTEE MEETINGS

During 2000, the Board held 10 meetings and the committees described above held 29 meetings. Average attendance at all such meetings was 94%. Each incumbent director attended at least 75% of the total number of board and committee meetings he or she was eligible to attend, with the exception of Phillip Frost who attended 64%.

COMPENSATION OF DIRECTORS

Northrop Grumman paid each director an annual retainer of $32,000 and an additional $1,000 for each Board and committee meeting attended during 2000. Committee chairpersons are paid an annual retainer of $3,000. Any director who performs extraordinary services for the Board at the request of the Chairman of the Board or the chairman of a committee is paid $1,000 per day. Directors are reimbursed for all reasonable expenses in attending these meetings and in performing extraordinary services. Directors who are employees of Northrop Grumman do not receive any compensation for their service as directors.

The 1993 Stock Plan For Non-Employee Directors provides that 30% of the retainer earned by each director is paid in shares of Common Stock, issued following the close of the fiscal year. In addition, directors may defer payment of all or a portion of their remaining retainer fees, Committee chairperson retainer fees and/or Board and committee meeting fees. Deferred compensation may either be distributed in shares of Common Stock, issued after the close of the fiscal year, or placed in a stock unit account until the conclusion of a director-specified deferral period, generally for a minimum of two years from the time the compensation is earned. All deferral elections must be made prior to the beginning of the year for which the retainer and fees will be paid. Directors are credited with dividend equivalents in connection with the shares of Common Stock, which are distributed early in the year following the year earned or deferred into the stock unit account. The Board has adopted a Northrop Grumman stock ownership guideline for outside directors which encourages directors to hold shares of Common Stock equal in market value to three times the annual retainer, to be achieved within five years of joining the Board.

The 1995 Stock Option Plan for Non-Employee Directors, as amended, provides for the annual grant of options to each non-employee director to purchase 1,500 shares of Common Stock with an exercise price equal to the fair market value of the Common Stock on the grant date. The options have a term of ten years. If the individual ceases to serve as a director, the options continue to be exercisable for the lesser of five years or the expiration of the original term of the options. If termination is for cause, the options terminate when the director ceases to serve.

On March 19, 1997, the Board of Directors adopted the Northrop Grumman Non-Employee Directors Equity Participation Plan (the "Equity Plan" and, together with the Retirement Plan, collectively, the "Directors Plans"). The Equity Plan is applicable to outside directors who become such after March 1, 1997 and directors serving prior to that date who elected to participate in the Equity Plan. Directors who elected to participate in the Equity Plan terminated their participation in the Retirement Plan. Under the Equity Plan, outside directors shall have an amount equal to 50% of their annual retainer credited to an equity participation account and converted into stock units based on the then fair market value of the Common Stock. Beginning in 2001 Northrop Grumman will also credit an amount equal to 5% of their annual retainer to the equity participation account unless: (1) no amount was appropriated for payment of awards with respect to the preceding calendar year pursuant to Northrop Grumman's Incentive Compensation Plan or (2) Northrop Grumman did not attain the pre-established financial and non-financial measures set by the Compensation and Management Development Committee for payment of awards pursuant to such Incentive Compensation Plan with respect to that preceding year. Each stock unit will be credited with dividend equivalents, which will be deemed reinvested in additional stock units. Each outside director who terminates service after three or more years of service shall be entitled to receive cash payments from the equity participation account in a number of annual installments equal to the number of years for which benefits have been accrued (not to exceed ten), each installment to be in an amount equal to the dollar value of the equity participation account based on Common Stock value as of the date of

determination of the installment payment, divided by the number of installments then remaining to be paid. Upon a change in control (as defined in the Equity Plan) benefits under the Equity Plan immediately vest. The Board of Directors believes that the Equity Plan will further align the interests of the directors with the interests of the stockholders by making this part of the directors' benefits dependent upon the value of the Common Stock.

REPORT OF THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

The Compensation Committee of the Board of Directors has furnished the following report on executive compensation applicable to employees elected as executive officers of Northrop Grumman. The Compensation Committee is comprised exclusively of outside directors.

Compensation Philosophy

Northrop Grumman's executive compensation program is designed to promote recruitment and retention of key employees of exceptional ability and to motivate superior performance. It is comprised of linked plans that encourage and reward participants for achieving outstanding performance, financial results exceeding specific thresholds, and long-term prosperous growth.

Major components of executive compensation are at risk and vary directly in their amount with each executive's impact on desired business results. Successful accomplishment of business goals in both annual operating performance and resulting stockholder value can produce significant individual rewards. Failure to attain business goals will have a negative effect on rewards.

In addition to variations attributable to individual performance against business goals and Northrop Grumman performance, executive total compensation is influenced directly by competitive considerations. Base salaries of executives are targeted at a competitive market median on a job-by-job basis with individual variations explained by differences in experience, skills and sustained performance. Annual incentive compensation and long-term incentive stock compensation vary with individual job level, scope and overall influence on Northrop Grumman's business results and individual, business element and Northrop Grumman performance.

Normalized for these individual variations, annual total cash compensation--the sum of base salary and annual incentive compensation--will be lower than competitive market median in years of below target performance and above competitive market median in years performance exceeds target.

Deductibility of Compensation

Section 162(m) of the Internal Revenue Code generally limits the tax deduction to $1 million for compensation paid to the corporation's chief executive officer and the four other most highly compensated executive officers. Qualifying performance-based compensation is not subject to the deduction limit.

In December 1998, the Compensation Committee approved amendments to the Incentive Compensation Plan to comply with the performance based criteria of Section 162(m) and, in May 1999, stockholders adopted the amended and restated Incentive Compensation Plan. As a result, compensation paid under the Incentive Compensation Plan for 1999 and thereafter should be deductible.

Measuring Northrop Grumman Performance

Consistent with Northrop Grumman's business plan, management in each organizational element prepares and submits for assessment an Annual Operating Plan containing Financial and Supplemental Goals together with defined performance measures and numerical weights.

- Financial Goals focus on operating earnings, cash flow and stockholder value metrics.

- Supplemental Goals focus on such factors as customer satisfaction, new product development, new business initiatives, productivity, quality improvement, workplace diversity, management development, and environmental management.

Annually, the Compensation Committee reviews, approves or--at its discretion--modifies the CEO's written proposal of goals and numerical values for Performance Measurement Factors. Performance highlights against 2000 goals can be found below in Chief Executive Officer 2000 Compensation.

For Performance Year 2000 the Compensation Committee established Performance Measurement Factors addressing Stockholder Value Creation, Pre-tax Return on 3-Year Average Stockholder Equity, Cash Flow and Supplemental Goals in order to judge Northrop Grumman's performance and that of executive officers.

Determining Competitive Compensation

In determining base salaries and incentive compensation for the Named Executive Officers, sources of competitive compensation information are independent surveys of industry peer companies. Peer companies include:

- Companies comprising the aerospace and defense group depicted in the performance graph in the Shareowner Return Performance Presentation following this Report and other companies designated by the Compensation Committee.

Northrop Grumman uses executive surveys provided by Hewitt Associates, Towers Perrin and Frederic W. Cook, Inc., as well as periodic custom surveys of companies selected by the Compensation Committee to assess competitiveness of executive compensation.

Establishing Executive Compensation

Northrop Grumman's executive compensation program includes the following linked elements:

- Base Salary

- Annual Incentive Compensation

. Long-Term Incentive Compensation.

Base Salary

Annually, the Compensation Committee reviews, and accepts or modifies as it deems appropriate, base salary recommendations submitted by the CEO for executive officers (other than the CEO). Separately, the Compensation Committee reviews the CEO's base salary, giving consideration to competitive compensation data, its assessment of past performance and its expectation of future contributions. The Board then approves or modifies the Compensation Committee's recommendations for executive officers and the CEO.

Annual Incentive Compensation

Executive officers are eligible for incentive compensation annually under Northrop Grumman's stockholder-approved 1973 Incentive Compensation Plan as amended. Performance criteria, as approved by shareholders, include objective tests of financial performance. The Committee appropriates an amount (Tentative Appropriated Incentive Compensation) to the Plan equal to 3% of Northrop Grumman's income before income taxes. However, no appropriation shall be made with respect to any Performance Year that would reduce the pre-tax return on stockholder equity below 10%, or in which no dividend is declared on common stock.

As stipulated by the Plan, the maximum potential individual incentive compensation award for a Performance Year for an executive officer shall be the lesser of $3,000,000 or the respective percentage of Tentative Appropriated Incentive Compensation, as follows:

Chief Executive Officer:	30.0%
Each Other Section 162(m) Officer:	17.5%

12

Accompanying his annual performance report, the CEO submits recommendations to the Compensation Committee for individual incentive awards for the executive officers, except the CEO, which reflect judgments as to contributions to the accomplishment of annual goals and Northrop Grumman's long-term business plan. Separately, the Compensation Committee considers an incentive compensation award for the CEO based on its assessment of performance.

As part of this process, the Compensation Committee reviews the amount of the total Tentative Appropriated Incentive Compensation for that Performance Year and in its sole discretion may reduce (but not increase) that amount after taking into account the overall performance of Northrop Grumman in the attainment of predetermined financial and non-financial objectives selected by the Compensation Committee. Each executive officer's Incentive Compensation award is based upon the foregoing and the Compensation Committee's assessment of the individual's performance. The incentive compensation awards for the executive officers and the CEO must be ratified by the Board.

Long-Term Incentive Compensation

The 1993 Long Term Incentive Stock Plan and the proposed 2001 Long Term Incentive Stock Plan provide flexibility to grant awards in a variety of forms including stock options, restricted stock rights (RSRs) and restricted performance stock rights (RPSRs). The purpose of this form of compensation is to establish long-term performance horizons for participants. By promoting ownership of Northrop Grumman's common stock, the Stock Plans create stockholder-managers interested in the sustained growth and prosperity of Northrop Grumman.

In 1998, to further promote alignment of management and stockholder interests, the Board adopted Stock Ownership Guidelines for the CEO and other officers of Northrop Grumman. These guidelines contemplate that officers own Northrop Grumman stock denominated as a percentage of their annual salaries, accumulated over a 3-year period: seven times annual salary for the CEO; three times annual salary for other elected officers; one and one-half times annual salary for appointed officers.

No regular awards of Options or Restricted Stock were granted to executive officers or the CEO during 2000. The last regular awards were granted in 1999 to the CEO and Named Executive Officers. The next grant of stock options is scheduled to occur in June 2001. If approved by shareholders, the proposed 2001 Long Term Incentive Stock Plan will govern awards issued in June.

2000 Chief Executive Officer Compensation

After considering executive compensation survey data from nationally recognized survey sources, the Committee recommended and the Board approved a salary increase for Mr. Kresa consistent with its pay philosophy.

In considering the performance of Mr. Kresa and establishing his annual incentive compensation, the Committee reviewed the overall performance of Northrop Grumman against the 2000 financial and supplemental goals and Mr. Kresa's contributions during the year. The Committee noted that Northrop Grumman exceeded all of the Performance Measurement Criteria set forth at the beginning of the period. Additionally, the Committee recognized that under Mr. Kresa's leadership:

- The year was highlighted by operational excellence and successful execution of Northrop Grumman's strategic plan to position itself as a premier provider of systems to meet customers needs for defense electronics, systems integration, information systems, precision strike, reconnaissance/intelligence and unmanned vehicles.

- Solid growth occurred with strong performance in all major programs. Overall, contract acquisitions increased by 20% to $9.2 billion. Backlog increased to $10.1 billion.

- Presence in the international market was strengthened by virtue of major contract awards, new international teaming arrangements and joint ventures. Electronic Sensors and Systems Sector was responsible for the UAE F-16 radar system and partnering with Boeing for the Australian Wedgetail. The strategic relationship between the Integrated Systems Sector and EADS expands international market access based on sharing technologies and capabilities.

- Domestic military wins included the F/A-18 MYP program, Vertical Takeoff Unmanned Air Vehicle (VTUAV), Airborne Laser Mine Detection System (ALMDS)--a potential new product line, JOINT Stars Total Systems Support, and several important development contracts built on Northrop Grumman's leadership position in unmanned systems.

- Logicon won a record level of new contracts worth over $2 billion during the year from a wide spectrum of customers.

- Cash Management was outstanding with approximately $975 million generated and net debt reduced by $750 million providing the financial strength to pursue strategic mergers and acquisitions to enhance Northrop Grumman's three growth engines--systems integration, defense electronics and information technology. Northrop Grumman exceeded its targeted performance goal for improvement in Warranted Equity Value.

- The successful acquisition and integration of Comptek Research Inc., Federal Data Corporation and Sterling Software's Federal Systems Group served to augment Northrop Grumman's core business strengths.

- The sale of the aerostructures business provided extra financial flexibility to pursue additional strategic opportunities that was culminated by successful negotiations leading to the agreement to acquire Litton Industries.

Based on its assessment, the Compensation Committee determined and the Board ratified an incentive compensation award for Mr. Kresa for 2000 as depicted in the Summary Compensation Table.

THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

JOHN T. CHAIN, JR., CHAIRMAN
JACK R. BORSTING
ROBERT A. LUTZ
JOHN E. ROBSON
RICHARD J. STEGEMEIER

AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors, the Audit Committee of the Board assists the Board in fulfilling its oversight responsibilities by reviewing financial reports and other financial information provided by Northrop Grumman to the shareholders and the Securities and Exchange Commission; Northrop Grumman's internal control structure; Northrop Grumman's internal and external audit process; and any other matters relating to Northrop Grumman's accounting and financial reporting process.

During the year, the Audit Committee met seven times. In addition, the Committee Chair, as the representative of the Audit Committee, discussed with Northrop Grumman's Chief Financial Officer and Deloitte & Touche, Northrop Grumman's independent auditors, the interim financial information contained in each quarterly earnings announcement prior to its release.

In discharging its oversight responsibility for the audit process, the Audit Committee received a letter from Deloitte & Touche regarding the firm's independence as required under Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," as amended by the Independence Standards Board. In addition, the Audit Committee has considered whether the provision of non-audit services is compatible with maintaining Deloitte & Touche's independence. The Audit Committee discussed with management, the internal auditors and Deloitte & Touche the quality of Northrop Grumman's internal controls. The Audit Committee reviewed the internal audit function's organization, responsibilities, budget and staffing. The Audit Committee also reviewed with both the internal auditor and Deloitte

& Touche their respective audit plans, audit scope and identification of audit risks.

The Audit Committee discussed and reviewed with Deloitte & Touche all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communications with Audit Committees" and, with and without management present, discussed and reviewed the results of Deloitte & Touche's examination of the financial statements, along with the results of internal audit's examinations.

The Audit Committee reviewed its charter and, after appropriate review and discussion, reaffirmed the Audit Committee Charter without amendments. A copy of the Audit Committee Charter is attached to this proxy as Exhibit A.

The Audit Committee reviewed the audited financial statements of Northrop Grumman as of and for the year ended December 31, 2000, with management and Deloitte & Touche.

Management has primary responsibility for Northrop Grumman's financial statements and the overall reporting process, including Northrop Grumman's system of internal controls.

The independent auditors audit the annual financial statements prepared by management, express an opinion as to whether these financial statements fairly present the financial position, results of operations and cash flows of Northrop Grumman in conformity with generally accepted accounting principles, and discuss with the Audit Committee any issues they believe should be raised.

Based upon the Audit Committee's review and discussions with management and Deloitte & Touche relative to Northrop Grumman's audited consolidated statements of financial position as of December 31, 2000 and 1999 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000, the Audit Committee recommended to the Board of Directors that Northrop Grumman's Annual Report on Form 10-K include these financial statements. The Audit Committee also recommended the reappointment, subject to shareholder ratification, of Deloitte & Touche and the Board of Directors concurred on such recommendation.

Each of the members of the Audit Committee is independent as defined under the listing standards of the New York Stock Exchange.

Audit Committee

Dr. John Brooks Slaughter, Chair	Charles R. Larson
Jack R. Borsting	Aulana L. Peters
Vic Fazio	Richard J. Stegemeier

Stockholder Return Performance Presentation

The line graph below compares the relative change for the five year period ended December 31, 2000 in the cumulative total stockholder return on Northrop Grumman's Common Stock against the cumulative total return of the S&P Composite-500 Stock Index, and the S&P Aerospace/Defense Index comprised of The Boeing Company, General Dynamics Corporation, B.F. Goodrich, Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company (B), Rockwell International Corporation and United Technologies Corporation.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN
AMONG NORTHROP GRUMMAN CORPORATION,
S&P 500 INDEX S&P AEROSPACE/DEFENSE INDEX
[GRAPH OF NORTHROP GRUMMAN]

Measurement Period (Fiscal Year Covered)	NORTHROP GRUMMAN	S&P 500 INDEX	S&P AEROSPACE/DEFENSE
Measurement Pt-1995	$100	$100	$100
FYE 1996	$132	$123	$129
FYE 1997	$186	$163	$134
FYE 1998	$121	$210	$123
FYE 1999	$ 92	$253	$120
FYE 2000	$144	$230	$169

EXECUTIVE COMPENSATION

The table below shows the annual and long-term compensation for services in all capacities to Northrop Grumman for the years ended December 31, 1998, 1999 and 2000 of the Named Executive Officers at December 31, 2000:

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long-Term Compensati	
					Awards	
Name and Principal Position	Year	Salary($)(1)	Bonus($)	Other Annual Compensation ($)	Restricted Stock Award(s) (2) ($)	Securities Underlying Options/ SARs(#)
1) KENT KRESA..........	2000	1,009,615	2,800,000	61,545(4)		89,125(5)
Chairman of the Board,	1999	936,346	1,400,000	296,420(6)	1,384,250	
President and Chief	1998	900,000	0	50,068(7)		200,000
Executive Officer						
2) RICHARD B. WAUGH, JR..................	2000	460,192	800,000			25,602(5)
Corporate Vice	1999	436,154	400,000		565,000	
President and	1998	390,885	92,000	56,217(8)	329,062	75,000
Chief Financial Officer						
3) JAMES G. ROCHE......	2000	474,231	825,000	60,667(9)		
Corporate Vice	1999	444,231	425,000	65,299(10)	565,000	
President and	1998	385,731	111,000	63,527(11)	329,062	75,000
President Electronic Sensors and Systems Sector						

4) HERBERT W. ANDERSON.	2000	403,269	700,000			
Corporate Vice	1999	369,231	575,000(12)		508,500	7,500
President,	1998	306,827	182,000(12)		263,250	60,000
President and Chief						
Executive Officer,						
Logicon, Inc.						
5) RALPH D. CROSBY, JR..................	2000	464,231	925,000(13)	90,873(14)		
Corporate Vice	1999	436,154	400,000	59,814(15)	565,000	
President and	1998	357,693	50,000		329,062	75,000
President, Integrated						
Systems Sector						

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(1) The amounts listed in this column do not include amounts paid for vacation hours accrued but not used for the following individuals in the following years: Mr. Kresa: $15,966 in 2000; Mr. Waugh: $29,927 in 2000, $12,100 in 1999, $9,109 in 1998; Dr. Roche: $26,318 in 2000, $23,468 in 1999, $16,053 in 1998; Mr. Anderson: $7,786 in 2000, $1,062 in 1999, $1,292 in 1998; and Mr. Crosby: $4,185 in 1998.

(2) At December 31, 2000, (i) Mr. Kresa owned 19,600 RSRs with a value of $1,626,800; (ii) Mr. Waugh owned 8,000 RSRs with a value of $664,000 and 4,500 time-vested RPSRs with a value of $373,500; (iii) Dr. Roche owned 8,000 RSRs with a value of $664,000 and 4,500 time-vested RPSRs with a value of $373,500; (iv) Mr. Anderson owned 7,200 RSRs with a value of $597,600 and 4,050 time-vested RPSRs with a value of $336,150; and (v) Mr. Crosby owned 8,000 RSRs with a value of $664,000 and 4,500 time-vested RPSRs with a value of $373,500. The RSRs vest over a five-year period with 20% of the total grant vesting one year after the date of grant and 20% vesting annually thereafter. There are no dividends paid on RSRs. Time-vested RPSRs vest one-third three years prior to the end of the payment period and one-third annually thereafter. Dividends are paid on RPSRs in the form of additional shares of stock. The time-vested RPSRs reflected in this column were previously disclosed in respect of the year of grant in the proxy statements for years 1999 or 2000.

(3) "All Other Compensation" consists of Northrop Grumman contributions to the Northrop Grumman Savings and Investment Plan for the Named Executive Officers.

(4) Amount includes $21,015 for car allowance and $16,750 for tax preparation services.

(5) All option grants in 2000 to Messrs. Kresa and Waugh were "re-load" grants as more fully described on page 19 under the heading "Option Grants in Last Fiscal Year."

(6) As a result of Northrop Grumman's decision in 1997 to relocate its corporate offices to Northern Virginia and the subsequent abandonment of that decision following the termination of the proposed merger with Lockheed Martin Corporation, Northrop Grumman in 1999 paid $211,200 to a third party relocation company in connection with the relocation company's purchase (at appraised value) of the Alexandria, Virginia house that Mr. Kresa had purchased in connection with the planned Corporate office move. It also paid $31,229 to transport Mr. Kresa's household goods to California

under its applicable policies.

(7) Amount includes $20,464 for car allowance and $17,526 for premium amounts paid on behalf of Mr. Kresa for life, accidental death and dismemberment, medical, dental and long-term disability insurance.

(8) Amount includes $17,295 for car allowance, $15,000 for income tax preparation services and $18,838 for premium amounts paid on behalf of Mr. Waugh for life, accidental death and dismemberment, medical, dental and long-term disability insurance.

(9) Amount includes, among other items, $16,423 for car allowance.

(10) Amount includes, among other items, $16,571 for spouse travel.

(11) Amount includes, among other items, $15,934 for car allowance.

(12) In connection with the merger with Logicon, Inc. and Northrop Grumman's desire to retain certain key employees, Northrop Grumman paid Mr. Anderson bonus compensation equal to 33 1/3% of his pre-merger base salary one year following the merger and 66 2/3% of pre-merger base salary two years following the merger. Under this arrangement, Mr. Anderson received $90,000 in 1998 and $180,000 in 1999.

(13) Includes $100,000 special award to Mr. Crosby as a key participant in Northrop Grumman's acquisition and divestiture activities and associated transition efforts.

(14) Amount includes, among other items, $35,597 for spouse travel and $26,032 for gross-up.

(15) Amount includes $17,940 for car allowance and $18,947 for spouse travel.

* Upon the February 26, 1998 shareholder vote in favor of the proposed merger of Northrop Grumman with Lockheed Martin Corporation (the "Merger Vote"), the unvested RPSRs under the 1993 Stock Plan vested and became distributable. In response to these accelerations, the Compensation Committee and the Board of Directors adopted a program ("Program") to preserve the incentive and employee-retention benefits of such amounts. The Program involved placing in escrow the net shares of Northrop Grumman stock issued to the executive officers after the acceleration. Fifty percent of the number of RPSRs that vested upon the shareholder vote were issued, and the remaining fifty percent was deemed tax owed with respect to the vested RPSRs. Of the fifty percent deemed tax owed, any amount in excess of the amount each executive officer previously instructed Northrop Grumman to withhold for taxes was paid to the executive officer in cash. The shares issued were placed in escrow pursuant to the terms of the Program as described on Page 23, and remained subject to the risks of forfeiture, company performance and overall market conditions until the expiration of the escrow period and the release of those shares on March 1, 2000.

The 1993 Stock Plan provides for release of RPSRs in annual interim installments in the third and fourth years, with final reconciliation in the fifth year in the event payments are then due to the executive. For the Named Executive Officers, the numbers of shares placed in escrow and the aggregate dollar value of RPSR shares which vested under the 1993 Stock Plan are as follows:

Mr. Kresa, 43,926 shares, $12,145,539; Mr. Waugh, 13,276 shares, $3,670,952; Dr. Roche, 12,328 shares, $3,408,554; Mr. Anderson, 11,899 shares, $3,290,074; and Mr. Crosby, 12,365 shares, $3,418,923. The dollar amounts of the RPSR shares that accelerated were calculated using the vesting date price per share of $138.25. On March 1, 2000, the date the escrow period expired, the price of a share of Northrop Grumman stock was $43.8125.

18

OPTION GRANTS IN LAST FISCAL YEAR

There were no stand-alone grants of stock options in 2000 and the table below shows individual "re-load" grants of stock options made in 2000 to Named Executive Officers.

Option Grants in Last Fiscal Year

	Individual Grants				Potent At A of Sto fo
	Number of Securities Underlying Options Granted (#) (1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	5%
Kent Kresa.............	23,059	3.45	73.0625	11/18/03	2
	29,375	4.39	73.0625	12/21/04	4
	36,691	5.48	70.875	11/16/05	7
Richard B. Waugh, Jr. ..	3,327	0.50	45.9375	7/19/00	
	4,349	0.65	45.9375	11/18/03	
	5,772	0.86	45.9375	11/18/02	
	5,251	0.78	57.125	11/18/03	
	6,903	1.03	57.125	12/21/04	

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(1) All option grants in 2000 to Named Executive Officers were made pursuant to a provision in the 1993 Plan that provides for the award of a new option when the exercise price of an existing option has been paid by tendering shares of Common Stock to Northrop Grumman. These new option grants are limited to the number of shares tendered at the exercise and the shares withheld for taxes, with the "re-load" option purchase price set at the then fair market value and never extend beyond the remaining term of the option exercised.

(2) The potential realizable value of each grant of options assuming that the market price of Northrop Grumman's Common Stock from the date of grant to the end of the option term (between one and five years, as applicable) appreciates in value at an annualized rate of 5% and 10%.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at FY-End(#) Exercisable/Unexercisable	Val Unexe In-th Opti FY-E Exerc Unexerc

Kent Kresa.............	116,400	3,068,800	184,123/150,002	1,078
Richard B. Waugh, Jr. ..	36,942	714,061	67,810/56,250	1,133
James G. Roche..........	0	0	41,250/56,250	291
Herbert W. Anderson.....	1,720	104,598	53,900/52,500	1,090
Ralph D. Crosby, Jr. ...	0	0	58,650/56,250	1,079

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(1) Based on the market value at December 31, 2000 of $83.

19

Pension Plans

For purposes of illustration, the following table shows the amount of annual retirement benefits that would be accrued at age 65 under the Northrop Grumman Pension Plan (the "Pension Plan"), as supplemented by the Northrop Corporation ERISA Supplemental Plan 1 ("ERISA 1") and the ERISA Supplemental Program 2 ("ERISA 2") (collectively, the "Supplemental Retirement Plans").

Annual Average Compensation (highest 3 years out of last 10)	Years of Benefit Service						
	5	10	15	20	25	30	35
$ 100,000	$ 8,300	$ 16,700	$ 25,000	$ 33,300	$ 41,700	$ 50,000	$ 50,000
150,000	12,500	25,000	37,500	50,000	62,500	75,000	75,000
200,000	16,700	33,300	50,000	66,700	83,300	100,000	100,000
250,000	20,800	41,700	62,500	83,300	104,200	125,000	125,000
300,000	25,000	50,000	75,000	100,000	125,000	150,000	150,000
400,000	33,300	66,700	100,000	133,300	166,700	200,000	200,000
500,000	41,700	83,300	125,000	166,700	208,300	250,000	250,000
600,000	50,000	100,000	150,000	200,000	250,000	300,000	300,000
1,000,000	83,300	166,700	250,000	333,300	416,700	500,000	500,000
1,400,000	116,700	233,300	350,000	466,700	583,300	700,000	700,000
1,800,000	150,000	300,000	450,000	600,000	750,000	900,000	900,000
2,200,000	183,300	366,700	550,000	733,300	916,700	1,100,000	1,100,000
2,600,000	216,700	433,300	650,000	866,700	1,083,300	1,300,000	1,300,000
3,000,000	250,000	500,000	750,000	1,000,000	1,250,000	1,500,000	1,500,000

Compensation covered by the plans for executive officers is substantially equivalent to salary and bonuses as reflected in the Summary Compensation Table. Benefit Service earned after January 1, 1995 in excess of 30 years will not be taken into account for accrual of retirement benefits. Benefits payable under the Supplemental Retirement Plans have been secured through the establishment of two grantor trusts. The credited years of service under the Pension Plan and Supplemental Retirement Plans of the five individuals named in the Summary Compensation Table are as follows: Mr. Kresa, 26 years; Mr. Waugh, 22 years; Dr. Roche, 17 years; Mr. Anderson, 16 years; and Mr. Crosby, 20 years. Benefits are calculated on a straight life annuity basis at selected compensation levels and years of service reflected in the table above. The listed benefit amounts are not subject to any reduction for Social Security benefits or other offset amounts.

Northrop Grumman maintains a Supplemental Retirement Income Program for

Senior Executives ("SRI"), under which certain employees are designated by the Board of Directors to receive benefits in lieu of benefits otherwise payable under the Pension Plan and the Supplemental Retirement Plans. The amount of the supplemental benefit under the SRI is equal to the greater of (1) the participant's benefit under the Pension Plan calculated without regard to the limits imposed under Sections 415 and 401(a)(17) of the Code, or (2) a fixed percentage of the participant's final average salary (which term includes bonus and is based on the highest 3 years out of the last 5) equal to 30% at age 55, increasing 4% for each year up to and including age 60, and increasing 2% for each year beyond age 60 to 65, in each case offset by the benefit allowable under the Pension Plan. Mr. Kresa, who is eligible to receive an annual benefit (estimated to be $1,566,675 payable at age 65, assuming continued employment and based upon estimated levels of final average salary) under SRI, is the only Named Executive Officer currently participating in the SRI. SRI eligibility, in addition to designation by the Board of Directors requires the attainment of age 55 and 10 years of vesting service. The vesting service requirement may be waived by the CEO.

On February 25, 1998, the Northrop Grumman Board adopted the CPC Supplemental Executive Retirement Program (the "CPC SERP"). The CPC SERP is applicable to elected officers who report directly to the CEO (which group currently consists of eight elected executive officers of Northrop Grumman as of January 1, 2000). The CPC SERP provides to each participant a pension accrual of 1.667% of final average pay for each year or

portion thereof that the participant has served as an elected officer reporting to the CEO. The total accrual percentage under the CPC SERP cannot exceed the greater of 1) 10% or 2) the percentage necessary for the participant to receive an annuity of 50% of final average salary when all pension benefits are taken in total. This provides a pension accrual to the elected officer for the period that he has served as such, in addition to regular pension benefits payable from Northrop Grumman's tax qualified and supplemental retirement plans on the basis of all creditable years of service. The benefits paid from this plan are paid in a lump sum or in installments upon termination of employment. The amount is the actuarial equivalent of the straight life benefit beginning on the retirement date. The compensation used in the calculation of benefit is the same as for the qualified plan. The pension table is applicable if benefit years of service is considered only for CPC Service. The CPC service years for the four Named Executive Officers who report directly to the CEO are as follows: Mr. Waugh 8.08, Dr. Roche, 8.58, Mr. Anderson 6.00, and Mr. Crosby, 6.58.

Change in Control Arrangements

March 2000 Special Agreements. Effective March 1, 2000, Northrop Grumman entered into special severance agreements (the "March 2000 Special Agreements") with its executive officers, including Messrs. Kresa, Waugh, Roche, Anderson and Crosby. The purpose of the March 2000 Special Agreements is to encourage these key executives to continue to carry out their duties in the event of the possibility of a change in control of Northrop Grumman.

The March 2000 Special Agreements are generally effective until February 28, 2003. The term of the March 2000 Special Agreements will be extended for additional one-year periods until notice is given by Northrop Grumman that the agreements will terminate. If a Change in Control (as defined below) occurs during the term of the agreements, the term of the agreements will not end earlier than two years following the Change in Control. The March 2000 Special Agreements replace Northrop Grumman's "Special Agreements" that generally were entered into in August 1996 and terminated in February 2000.

Under the March 2000 Special Agreements, a "Change in Control," is generally deemed to occur when (1) certain persons acquire more than 33 1/3% of Northrop Grumman's voting securities; (2) certain majority changes in Northrop Grumman's Board of Directors occur during a 24-month period; (3) Northrop Grumman is liquidated or all or substantially all of Northrop Grumman's assets are sold in one or a series of related transactions; or (4) Northrop Grumman is merged, consolidated, or reorganized and Northrop Grumman's stockholders before the event do not own more than 50% of the voting stock of the resulting or surviving entity.

Executives are entitled to severance benefits under the March 2000 Special Agreements only (1) upon a termination of the executive's employment that constitutes a Qualifying Termination (as defined below), and (2) only if the termination occurs during a Protected Period (as defined below) prior to a Change in Control or in the 24-month period following a Change in Control. A "Qualifying Termination" generally means that the executive's employment by Northrop Grumman is terminated for any reason other than Cause (as defined below) or by the executive for Good Reason (as defined below), that Northrop Grumman breaches the agreement, or that a successor breaches or fails to assume the agreement.

The "Protected Period" is the period of time that the executive is entitled to severance protections under the March 2000 Special Agreement prior to a Change in Control. Depending on the nature of the Change in Control, the Protected Period may commence as early as six months prior to a Change in Control event.

The March 2000 Special Agreements define "Cause" as: (1) the executive's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony; or (2) the willful engaging by the executive in misconduct which would have resulted in the executive's termination by Northrop Grumman under its policies and practices applicable to the executive on September 1, 1999. However, no act or failure to act, on an executive's part, will be considered "willful" for this purpose unless done, or omitted to be done, by the executive not in good faith and without reasonable belief that the act or omission was in the best interest of Northrop Grumman.

"Good Reason" is defined in the March 2000 Special Agreements to include: (1) certain material reductions in the nature or status of the executive's authorities, duties and/or responsibilities (when such authorities, duties, and/or responsibilities are viewed in the aggregate); (2) a reduction of the executive's base salary as in effect on the date of the agreement or as increased thereafter; (3) a significant reduction of the executive's aggregate incentive opportunities under the Northrop Grumman short and/or long term incentive programs as such opportunities exist on the date of the agreement or as increased thereafter; (4) Northrop Grumman's failure to maintain the executive's relative level of coverage and accruals under Northrop Grumman's employee benefit and/or retirement plans, policies, practices or arrangements in which the executive participates as of the date of the agreement; (5) the failure of Northrop Grumman to obtain a satisfactory agreement from any successor to assume and agree to perform Northrop Grumman's obligations under the agreement; and (6) any purported termination of the executive's employment with Northrop Grumman that is not effected pursuant to the procedures set forth in the agreement. If an executive is a vice president, the executive's loss of vice president status (other than a promotion to a higher level office) will constitute Good Reason. In addition, if an executive reports directly to the Northrop Grumman Chief Executive Officer immediately prior to the start of the Protected Period, Good Reason will be deemed to exist if the executive's reporting relationship is changed such that the executive does not report to one of the following: the Chairman of the Northrop Grumman Board of Directors, or the Northrop Grumman Chief Executive Officer, President, or Chief Operating Officer.

Severance benefits generally consist of: (1) an amount equal to three times the executive's highest annualized base salary earned with respect to the three full fiscal years prior to the date of the termination of the executive's employment; (2) an amount equal to three times the greater of (a) the average of the executive's bonus earned with respect to the three full fiscal years prior to the date of the termination of the executive's employment or (b) the executive's target annual bonus established for the bonus plan year during which the executive's termination occurs; (3) an amount equal to the executive's unpaid base salary and accrued vacation pay through the effective date of termination, together with a pro rata portion of the executive's target bonus for the bonus plan year during which termination occurs; (4) continuation for 36 months following the effective date of termination of all benefits pursuant to all welfare benefit plans under which the executive or his family is eligible to receive benefits as of the effective date of the Change in Control, and further continuation of medical benefits for the lives of the executive and his spouse; (5) a lump sum cash payment representing the present value of the executive's benefits accrued under Northrop Grumman's qualified defined benefit pension plan and supplemental retirement plans (calculated as though the executive's employment had continued for three years) offset by the actuarial present value equivalent of the benefits payable to the executive from Northrop Grumman's qualified defined benefit pension plan accrued through the effective date of termination; and (6) a lump sum cash payment equal to the entire balance of the executive's deferred compensation, if any, together with any interest thereon. Executives had the ability to elect, on or before March 1, 2000, an override of the benefit described in clause (5). If an executive elected an override, his or her supplemental retirement plan benefits will be paid in accordance with the provisions of those plans rather than an automatic lump sum payment.

The March 2000 Special Agreements also provide that if, following a Change in Control, excise taxes under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") apply to payments made under the March 2000 Special Agreements or other plans or agreements, the executive will be entitled to receive an additional payment (net of income, Medicare and excise taxes) to compensate the executive for any excise tax imposed.

Long-Term Incentive Stock Plans. The 1993 Stock Plan and the 1987 Stock Plan (collectively, the "Stock Plans"), permit grants to selected employees of Northrop Grumman consisting of stock options ("Stock Options"), RPSRs, RSRs and RASs. A Stock Option granted under the Stock Plans is a right to purchase a number of shares of Common Stock for a specified period of time at a price per share not less than the fair market value on the date of grant. An RPSR is a right to receive a number of shares of Common Stock on a specified future date conditioned upon continued employment and Northrop Grumman's achievement of specified performance in relation to a list of peer companies. RSRs are the right to receive a specified number of shares of Common Stock contingent upon continued employment with Northrop Grumman and other terms set forth in the Stock Plans. RASs are restricted shares of Common Stock granted under the 1987 Stock Plan.

Prior to amendment of the 1993 Stock Plan on November 18, 1998, under the Stock Plans, a "Change in Control" had the same definition as used in the Special Agreements. Consequently, the Merger Vote constituted a "Change in

Control" for purposes of the Stock Plans, and, upon the Merger Vote, (a) all Stock Options under the Stock Plans outstanding as of February 26, 1998 vested and became fully exercisable; (b) the RPSRs under the Stock Plans outstanding as of February 26, 1998 vested and became payable in shares of Northrop Grumman Common Stock, which payment is calculated based upon attainment of certain stock price performance targets; and (c) the RSRs and RASs under the Stock Plans outstanding as of February 26, 1998 vested and became distributable.

On November 18, 1998, the Board amended the 1993 Stock Plan to provide that the vesting of stock options would not accelerate upon a vote of the Stockholders approving a change in control of Northrop Grumman. Rather, options would accelerate: (i) if a successor company failed to continue those options; or (ii) if continued only following both an actual close of a change in control transaction and either termination of an option holder not for Cause or termination by an option holder for Good Reason. Following a change in control, RPSRs would accelerate only prorated on time lapsed from the start of the performance period for which they were granted.

1998 Restricted Stock Rights Plan. In response to the acceleration of RPSR, RSR and RAS stock awards under the Stock Plans caused by the Merger Vote, the uncertainty created by the Government's decision to challenge the Merger on antitrust grounds and Northrop Grumman's agreement to defer the closing of the Merger pending resolution of the Government's antitrust challenge, the Compensation Committee and the Board of Directors of Northrop Grumman concluded that it was appropriate to adopt a program that would undertake to ensure that receipt by Northrop Grumman's executive officers and key employees of shares ("Shares") of Common Stock issuable pursuant to the RPSR, RSR and RAS stock awards would not adversely affect their incentive to serve Northrop Grumman's and the stockholders' best interests. The Compensation Committee and the Board of Directors also concluded that a program pursuant to which the Shares were placed into escrow for a period of time would have the effect of creating an incentive for such persons to remain with Northrop Grumman and to create additional value in Northrop Grumman in other ways in the event that the Merger was not consummated. Accordingly, on March 24, 1998, the Board of Directors adopted the 1998 Restricted Stock Rights Plan and related Ownership Retention Agreements (the "1998 Plan"). All executive officers of Northrop Grumman (including the Named Executive Officers) voluntarily agreed to participate in the 1998 Plan and placed their Shares (net of tax withholding as described below) into escrow until the earlier of (i) March 1, 2000, (ii) a "Change in Control" (which includes consummation of the Merger) or (iii) the executive officer's death, qualifying Retirement (as defined therein) subsequent to March 1, 1999, disability or termination by Northrop Grumman other than for Cause. They also agreed to forfeit their Shares if they voluntarily left Northrop Grumman other than for Good Reason (which has the same definition as in the Special Agreements) or if they were terminated for Cause. Pursuant to the 1998 Plan, applicable tax owed with respect to receipt of the Shares was deemed to equal the value of the remaining fifty percent of vested Shares as of the vesting date (February 26, 1998), with any amount in excess of the amount the executive officers previously instructed Northrop Grumman to withhold for taxes paid to the executive officer in cash.

The 1998 Plan also applied to the vested Shares received by Northrop Grumman key employees other than executive officers, with the addition that, any key employee who voluntarily placed his or her Shares into escrow, also received an award of additional shares ("Additional Shares") of Common Stock when the Merger had not been consummated on or prior to July 1, 1998. The awards made to key employees consisted of a restricted stock right (the "Right") to receive subject to the terms and conditions of the 1998 Plan, a number of Additional Shares equal to 14.5% of the total number of his or her Shares (29% of the shares placed in escrow). As stated on page 18, the escrow period ended and the shares were released on March 1, 2000. The 1998 Plan terminated on

March 24, 2000.

Northrop Grumman Estate Enhancement Program (the "Estate Program")

The Estate Program at present provides Mr. Kresa with the ability to elect, as an investment alternative under the Northrop Grumman Executive Deferred Compensation Plan (the "Executive Deferred Compensation Plan") to have all or a portion of his deferral account balance converted to the Estate Program.

The amount and type of coverage under the life insurance policy is specified in an individual agreement with Mr. Kresa. Northrop Grumman retains a collateral assignment of the cash value of the policy. Upon the death of Mr. Kresa and his wife, Northrop Grumman will receive the greater of the cash accumulation value of the policy or the premiums paid for the policy, and Mr. and Mrs. Kresa's beneficiaries will receive the remaining amount. Alternatively, certain persons designated by Mr. Kresa may elect to transfer ownership of the policy to Northrop Grumman, in which case death benefits to the beneficiaries will be paid out of the corporation's general funds.

In the event of a Change in Control (as defined in the Estate Program), the Estate Program becomes irrevocable, and the Company must transfer the ownership of Mr. Kresa's policy to an irrevocable trust. Northrop Grumman or its successor will continue to be responsible for any obligations under the Estate Program not paid by the trust or for obligations that the trust's assets are insufficient to cover.

As of January 1, 2001, Mr. Kresa was the only participant in the Estate Program. Under Mr. Kresa's agreement, a $10 million policy issued by the Travelers Life and Annuity Company covers Mr. Kresa and his wife, Joyce A. Kresa. Northrop Grumman paid $2.175 million in premiums attributable to the investment of Mr. Kresa's deferral amounts under the Executive Deferred Compensation Plan. Upon the death of the last surviving of Mr. and Mrs. Kresa, any amounts received by Northrop Grumman under the policy that are in excess of 200% of the premiums paid by Northrop Grumman will be remitted to Mr. and Mrs. Kresa's beneficiaries, together with the balance of Mr. Kresa's deferred compensation plan.

Certain Relationships and Related Transactions

Ms. Peters retired as a partner of the law firm of Gibson, Dunn & Crutcher on December 31, 2000. A partner and a senior advisor of Gibson, Dunn & Crutcher are consultants for Northrop Grumman, providing analysis and advice with respect to pending and proposed legislation. The firm also provided legal counsel during 2000 in connection with various corporate matters.

Northrop Grumman entered into a letter agreement with Dr. Ronald D. Sugar on December 21, 2000, as amended on January 31, 2001, under which Dr. Sugar was elected Corporate Vice President of Northrop Grumman, President and Chief Executive Officer of Northrop Grumman's Litton subsidiary and as a member of the Board of Directors of Northrop Grumman on April 3, 2001.

In general, under the terms of the letter agreement, Northrop Grumman assumed the obligations under Dr. Sugar's employment and change of control agreements with Litton Industries, Inc. Under the employment agreement, if Northrop Grumman terminates Dr. Sugar's employment without cause, or if there is a constructive termination without cause, each as defined in the employment agreement, after he is elected Chief Executive Officer of Litton but before he is elected Chairman of the Board of Litton, then Dr. Sugar will be entitled to receive his accrued salary, bonus and annual incentive award through the date of termination, plus his annual base salary and incentive award for two years after termination. He will also be entitled to certain pension, insurance and welfare plan benefits. Under the change of control agreement, if Dr. Sugar's employment is terminated by Northrop Grumman other than for cause, death or disability, or if Dr. Sugar terminates his employment for good reason, each as defined in the change of control agreement, he will be entitled to receive his accrued salary, bonus and annual incentive award through the date of termination and a lump-sum severance payment equal to three times the sum of his annual base salary and bonus. Dr. Sugar will also be entitled to receive certain pension, insurance and welfare plan benefits. If any payment made to Dr. Sugar under his change of control agreement or otherwise is subject to the excise tax imposed under Section 4999 of the Internal

Revenue Code, then Dr. Sugar will be entitled to a receive an additional payment to compensate him for any excise tax imposed. In April 2001, Dr. Sugar received a special cash bonus of $857,963 under his employment agreement, as previously disclosed in Amendment No. 3 to Schedule 14D-9 of Litton Industries, Inc., filed with the SEC on February 1, 2001. In addition, upon the change of control of Litton that occurred on April 3, 2001, the vesting of Dr. Sugar's Litton stock options and restricted stock accelerated. When the Litton merger closes, these awards will be cancelled and Dr. Sugar will receive a cash payment of $17,627,758 in respect of these awards, as previously disclosed in Amendment No. 3 to Schedule 14D-9 of Litton Industries, Inc., filed with the SEC on February 1, 2001.

Under the terms of the letter agreement with Northrop Grumman, Dr. Sugar's rights under the employment agreement and the change of control agreement were modified in two respects. First, except in limited circumstances, including if Northrop Grumman fails to pay Dr. Sugar his annual base salary or bonus or reduces or fails to make any payments due him under the employment agreement, Dr. Sugar will not be entitled to severance benefits under those agreements if he terminates his employment during the employment period commencing on the closing date of the Litton merger and ending on the later of (1) the date six months following the closing of the Litton merger or (2) December 31, 2001. Dr. Sugar's current annual base salary is $620,000, and he is guaranteed a bonus of $775,000. Dr. Sugar will retain the right to receive severance benefits if he terminates his employment after that employment period on the basis of an event that occurs during that employment period that constitutes good reason under his change of control agreement or a constructive termination without cause under his employment agreement before December 31, 2001. Second, for 30 days after that employment period, Dr. Sugar will have the right to voluntarily terminate his employment for any reason and his termination will be considered a termination for good reason under his change of control agreement and a constructive termination without cause under his employment agreement. The letter agreement with Northrop Grumman affirmed that in the event of any such termination, Dr. Sugar will be entitled to a total severance benefit under the change of control and employment agreements equal to the greater of (i) $5,000,000 or (ii) three times the sum of his annual base salary and highest bonus award during the last three full fiscal years. After the employment period, the original terms of Dr. Sugar's change of control agreement will continue through April 2, 2004, which is three years from the date that a change of control of Litton Industries occurred. The terms of the letter agreement with Northrop Grumman will only be effective if the Litton merger closes on or before December 31, 2001.

On April 3, 2001, Dr. Sugar became entitled to receive a lump-sum payment of approximately $2,000,000 under the Litton Supplemental Executive Retirement Plan (or "SERP") and he became fully vested in all of his retirement benefits under the SERP. In addition, on April 3, 2001, all of Dr. Sugar's benefits under Litton's Restoration Plan, an unfunded, nonqualified retirement plan, became fully vested and he became eligible to receive a payout of approximately $775,000 under that plan. Dr. Sugar also has a loan of $600,000 currently outstanding under Litton's Incentive Loan Program. Under the terms of the merger agreement with Litton, Northrop Grumman will not demand repayment of Dr. Sugar's loan before December 31, 2001.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Northrop Grumman's officers and directors, and persons who own more than ten percent of a registered class of Northrop Grumman's equity securities, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC and the New York Stock Exchange. The SEC requires officers, directors and greater than ten percent beneficial owners to furnish Northrop Grumman with copies of all Forms 3, 4 and 5 they file.

Northrop Grumman believes that all its officers, directors and greater than ten percent beneficial owners complied with all their applicable filing requirements for 2000 transactions. This is based on Northrop Grumman's review of copies of Forms 3, 4 and 5 it has received and of written representations from certain reporting persons that they were not required to file a Form 5.

PROPOSAL TWO: APPOINTMENT OF INDEPENDENT AUDITORS

During the year ending on December 31, 2000, Northrop Grumman paid Deloitte & Touche, its independent auditors, the following fees:

Audit Fees..	$3,690,000
Financial Information Systems Design and Implementation Fees.....	$ 0
All Other Fees..	$4,606,000

The Board of Directors recommends that the stockholders ratify the Board's appointment of Deloitte & Touche LLP as Northrop Grumman's independent auditors for 2001. Deloitte & Touche LLP served Northrop Grumman as its independent auditors for 2000. Should the stockholders fail to ratify the appointment of Deloitte & Touche LLP, the Board of Directors will consider this an indication to select other auditors for the following year.

A representative of Deloitte & Touche LLP will be present at the Annual Meeting of Stockholders and will have the opportunity to make a statement if such representative desires to do so and also will be available to answer appropriate questions from stockholders.

Vote Required

The affirmative vote of a majority of the shares of Common Stock voting at the annual meeting is required for approval of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE ABOVE PROPOSAL.

PROPOSAL THREE: APPROVAL OF THE
NORTHROP GRUMMAN 2001 LONG-TERM INCENTIVE STOCK PLAN

Stockholders are being asked to approve the Northrop Grumman 2001 Long-Term Incentive Stock Plan (the "Plan" or the "2001 Plan"). The Board of Directors adopted the Plan, subject to stockholder approval, on February 21, 2001.

Northrop Grumman believes that incentives and stock-based awards focus employees on the objective of creating stockholder value and promoting the success of Northrop Grumman, and that incentive compensation plans like the 2001 Plan are an important attraction, retention and motivation tool for participants in the Plan. The Board of Directors believes that the 2001 Plan will promote the interests of Northrop Grumman and its stockholders and that it will give Northrop Grumman flexibility to continue to provide incentives that are based on the attainment of corporate objectives and increases in stockholder value.

Northrop Grumman currently maintains the Northrop Grumman 1993 Long-Term Incentive Stock Plan (the "1993 Plan"). As of January 31, 2001, 5,790,969 shares of Common Stock were subject to awards outstanding under the 1993 Plan and an additional 330,775 shares remained available for grant purposes under the 1993 Plan. An additional 1,080,881 shares (the 2001 evergreen installment) will become available for grant purposes under the 1993 Plan on May 21, 2001. The Board of Directors approved the 2001 Plan based, in part, on a belief that the aggregate number of shares available under the 1993 Plan is insufficient to adequately provide for future incentives. Northrop Grumman's ability to grant additional awards under the 1993 Plan will terminate if stockholders approve the 2001 Plan. Awards then outstanding under the 1993 Plan will continue in accordance with their terms.

Summary Description of the 2001 Plan

The following summary of the principal terms of the 2001 Plan is qualified in its entirety by the full text of the Plan, which is Exhibit B to this Proxy Statement.

Purpose. The purpose of the 2001 Plan is to promote the long-term success of Northrop Grumman and to increase stockholder value by providing officers and selected employees with incentives to create excellent performance and to continue service with Northrop Grumman, its subsidiaries and affiliates. Both by encouraging officers and employees to become owners of Common Stock and by providing actual ownership through Plan awards, it is intended that Plan participants will view Northrop Grumman from an ownership perspective.

Administration. The Compensation Committee of the Board will administer the Plan. The Compensation Committee may delegate its authority to make grants under the Plan to one or more committees of directors. (The appropriate acting body, be it the Compensation Committee or another authorized committee of directors, is referred to in this Proposal as the "Committee"). The Committee determines the number of shares that are to be subject to awards and the terms and conditions of awards, including the price (if any) to be paid for the shares or the award. Subject to the other provisions of the Plan, the Committee has the authority to make certain adjustments to an outstanding award and to authorize the conversion, succession or substitution of an award pursuant to Section 6 of the Plan.

The Committee may allow the purchase price of an award or shares of Common Stock under the Plan to be paid in the form of cash, by the delivery of already-owned shares of Common Stock, by the surrender of an award of equivalent value, through a third-party purchase where the third party agrees to sell a number of shares on behalf of a participant and the participant assigns the right to receive the proceeds from such sale to Northrop Grumman in payment of the purchase price, or any other form permitted by law.

No Repricing. The Committee may not cancel an outstanding option for the purpose of replacing or re-granting the option with an exercise price that is less than the exercise price of the original option. The

Committee may not amend an outstanding option for the purpose of reducing the exercise price of the option. (Adjustments to reflect stock splits and similar events will not be considered amendments for this purpose.)

Eligibility. Persons eligible to receive awards under the Plan include key employees of Northrop Grumman and key employees of any other entity that is directly or indirectly controlled by Northrop Grumman or in which Northrop Grumman has a significant equity interest. All officers and employees of Northrop Grumman and its subsidiaries (including all of Northrop Grumman's named executive officers) are considered eligible under the 2001 Plan at the present time. The Committee determines from time to time the participants to whom awards will be granted.

Authorized Shares; Limits on Awards. The maximum number of shares of Common Stock that may be issued or transferred pursuant to awards under the 2001 Plan equals the sum of:

- 8,000,000 shares; plus

- any shares of Common Stock available but not issued under the 1993 Plan (the approximate number of shares that are currently available or expected to become available under the 1993 Plan is set forth above); plus

- any shares of Common Stock that Northrop Grumman repurchases with proceeds received from option exercises.

In addition, any shares that are forfeited back to Northrop Grumman under the 2001 Plan or the 1993 Plan, and any shares that have been exchanged by a participant as full or partial payment to Northrop Grumman in connection with any award under the 2001 Plan or the 1993 Plan, as well as any shares exchanged by a participant or withheld by Northrop Grumman to satisfy the tax withholding obligations related to an award under the 2001 Plan or the 1993 Plan, will be available for issuance under the Plan.

In instances where a stock appreciation right ("SAR") or other award granted under the Plan or the 1993 Plan is settled in cash or a form other than shares, the shares that would have been issued had there been no cash or other settlement will not be counted against the share limits of that plan for purposes of determining the number of shares that remain available for issuance under the Plan. The payment of cash dividends and dividend equivalents in conjunction with outstanding awards will not be counted against the shares available for issuance under the Plan. In addition, the Plan generally provides that shares issued in connection with awards that are granted by or become obligations of Northrop Grumman through the assumption of awards (or in substitution for awards) in connection with an acquisition of another company will not count against the shares available for issuance under the Plan.

The following other limits are also contained in the 2001 Plan:

- No more than 3,000,000 of the shares available for issuance under the Plan may be issued pursuant to stock awards granted under Section 8(c) of the Plan (generally, Section 8(c) contemplates awards other than stock options and stock appreciation rights ("SARs") -such other types of awards could include stock bonuses, restricted stock performance shares and other types of awards).

- No more than 4,000,000 shares may be delivered under the Plan pursuant to stock options qualified as incentive stock options ("ISOs") under Section 422 of the Internal Revenue Code.

- No more than 900,000 shares may be awarded to any participant during any three-year period pursuant to stock option grants and SAR grants under the Plan.

- ""Performance-Based Awards" under Section 8(c)(ii) of the Plan (other than stock options or SARs, and without giving effect to any related dividend equivalents) that are granted to any participant during any three consecutive years may not relate to or provide for payment of more than 300,000 shares.

- Performance-Based Awards payable only in cash, not related to shares, and granted to any participant in any calendar year may not provide for payment of more than $3,000,000.

The foregoing share limits apply with respect to all 2001 Plan awards regardless of whether the underlying shares are attributable to the fixed 8,000,000 shares to be made available for Plan award purposes or shares available but not issued under the 1993 Plan.

As is customary in incentive plans of this nature, the number and kind of shares available under the Plan and the then outstanding awards, as well as exercise and purchase prices, performance targets under certain performance-based awards, and share limits, are subject to adjustment in the event of certain stock dividends, stock splits, combinations or exchanges of shares, mergers, consolidations, spin-offs, recapitalizations and similar events.

The Plan will not limit the authority of the Board of Directors or the Committee to grant awards or authorize any other compensation, with or without reference to the Common Stock, under any other plan or authority, except, as noted above, Northrop Grumman's ability to grant additional awards under the 1993 Plan will terminate if stockholders approve the 2001 Plan.

Types of Awards. The Plan authorizes stock options, SARs, and other forms of awards granted or denominated in Common Stock or units of Common Stock. The Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash.

A stock option is the right to purchase shares of Common Stock at a future date at a specified price per share (the "exercise price"). The per share exercise price of an option may not be less than the fair market value of a share of Common Stock on the date of grant. The maximum term of an option is ten years from the date of grant. An option may either be an ISO or a nonqualified stock option. ISO benefits are taxed differently from nonqualified stock options, as described under "Federal Income Tax Treatment of Awards under the 2001 Plan" below. ISOs are also subject to more restrictive terms and are limited in amount by the Code and the Plan. ISOs may only be granted to key employees of Northrop Grumman or a subsidiary. The Committee may grant stock options that provide for the award of a new option when the exercise price of the option and/or tax withholding obligations related to the exercise of the option are paid in the form of shares or by a reduction in the number of shares otherwise deliverable.

An SAR is the right to receive payment of an amount equal to the excess of the fair market value of a share of Common Stock on the date of exercise of the SAR over the base price of the SAR. The base price will be established by the Committee at the time of grant of the SAR and generally cannot be less than the fair market value of a share of Common Stock on the date of grant. SARs may be granted in connection with other awards or independently. The maximum term of an SAR is ten years from the date of grant.

The other types of awards that may be granted under the 2001 Plan include, without limitation, stock bonuses, restricted stock, and performance shares.

Performance-Based Awards. The Committee may grant awards that are intended to be performance-based awards within the meaning of Section 162(m) of the Code ("Performance-Based Awards"). Performance-Based Awards are in addition to any of the other types of awards that may be granted under the Plan (including options and SARs which may also qualify as performance-based awards for Section 162(m) purposes). Performance-Based Awards may be in the form of restricted stock, performance stock, phantom stock or other rights.

The vesting or payment of Performance-Based Awards will depend on the absolute or relative performance of Northrop Grumman on a consolidated, segment, subsidiary, division, or plant basis. The Committee will establish the criterion or criteria and target(s) on which performance will be measured. The Committee must establish criteria and targets in advance of applicable deadlines under the Code and while the attainment of the performance targets remains substantially uncertain. The criteria that the Committee may use for this purpose will include one or more of the following: revenue growth, net earnings (either before or after interest, taxes, depreciation, amortization and/or Net Pension Income (as defined below)), cash flow, return on equity or on assets or on net investment, cost containment or reduction, stock price appreciation, total stockholder return, or

EVA (as defined below). "Net Pension Income" means any positive difference between income from employee pension plan investments less the cost of employee pension benefits for the relevant period of time. "EVA" means operating profit after tax (which means net earnings after tax but before tax adjusted interest income and expense and goodwill amortization), less a charge for the use of capital (which is based on average total capital and the weighted average cost of capital). The performance measurement period with respect to an award may range from one to ten years.

Performance-Based Awards may be granted only to key employees of Northrop Grumman or a subsidiary. Performance goals will be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting charges or other extraordinary events not foreseen at the time the goals were set.

Performance-Based Awards may be paid in stock or in cash (in either case, subject to the limits described under the heading "Authorized Shares; Limits on Awards" above). Before any Performance-Based Award is paid, the Committee must certify that the performance target or targets have been satisfied. The Committee has discretion to determine the performance target or targets and any other restrictions or other limitations of Performance-Based Awards and may reserve discretion to reduce payments below maximum award limits.

Dividend Equivalents; Deferrals. The Committee may provide for the deferred payment of awards, and may determine the other terms applicable to deferrals. The Committee may provide that awards under the Plan, and/or deferrals, earn dividends or dividend equivalents based on the amount of dividends paid on outstanding shares of Common Stock.

Acceleration of Awards; Possible Early Termination of Awards. Generally, if Northrop Grumman is liquidated, all or substantially all of Northrop Grumman's assets are sold, or Northrop Grumman is merged, consolidated or reorganized and stockholders prior to the event do not continue to own more than 60% of the combined voting power of Northrop Grumman or a successor after the event, then, if outstanding Plan awards are not assumed or continued after the event, all options granted under the Plan will vest, SARs will be paid, and any other types of awards will vest or be paid. The Committee also has the discretion to establish other change in control provisions with respect to awards granted under the Plan. For example, the Committee could provide for the acceleration of vesting or payment of an award in connection with a change in control event that is not described above.

Transfer Restrictions. Subject to certain exceptions contained in Section 11 of the Plan, awards under the Plan are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares issuable pursuant to an award will be paid only to the recipient or the recipient's beneficiary or representative.

Termination of or Changes to the 2001 Plan. The Board of Directors may amend or terminate the Plan at any time and in any manner. Stockholder approval for an amendment will be required only if the amendment increases the number of shares available under the Plan or if stockholder approval is