NORTHROP GRUMMAN CORP /DE/
Form DEF 14A
April 04, 2002

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:

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

(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):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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

(3) Filing Party:

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Reg. (S) 240.14a-101
SEC 1913 (3-99)

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS AND PROXY STATEMENT

NOTICE

The Annual Meeting of Stockholders of Northrop Grumman Corporation (the Company) will be held on Wednesday, May 15, 2002 at 10:00 a.m. at the Fairmont Miramar Hotel, 101 Wilshire Boulevard, Santa Monica, California 90401.

Stockholders at the close of business on March 21, 2002 are entitled to vote at the Annual Meeting. The following items are on the agenda:

(1) Election of three Class II directors, each for a three year term expiring in 2005;

(2) Proposal to ratify the appointment of Deloitte & Touche LLP as the Company s independent auditors for fiscal year ending December 31, 2002;

(3) Proposal to approve the 2002 Incentive Compensation Plan of Northrop Grumman Corporation;

(4) Proposal to amend Northrop Grumman s Certificate of Incorporation to increase the number of authorized shares of Common Stock;

(5) Stockholder proposal regarding military activities in space;

(6) Stockholder proposal regarding super majority vote.

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

By order of the Board of Directors,

John H. Mullan
Corporate Vice President and Secretary

1840 Century Park East
Los Angeles, California 90067

April 4, 2002

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 (the Company or Northrop Grumman) for use at the Company s 2002 Annual Meeting of Stockholders (the Annual Meeting). The Company 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 5, 2002.

OUTSTANDING SECURITIES

On March 21, 2002 there were 112,348,583 shares of the Company s common stock, par value $1.00 per share (Common Stock), outstanding. Holders of record at the close of business on that date are entitled to vote at the Annual Meeting. Each share is entitled to one vote.

VOTING AT THE MEETING OR BY PROXY

Shares represented by a properly executed proxy 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 the Company for the year ending December 31, 2002, FOR Proposal Three to approve the 2002 Incentive Compensation Plan of Northrop Grumman Corporation, FOR Proposal Four to amend the Company s Certificate of Incorporation to increase the number of authorized shares of Common Stock, AGAINST Proposal Five, the stockholder proposal regarding military activities in space and AGAINST Proposal 6, the stockholder proposal regarding super majority vote. For those shares held in the Company 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 and/or trust agreements.

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 2002 Incentive Compensation Plan (Proposal Three), provided that holders of over 50% of the outstanding shares of common stock cast votes on this proposal. 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 Four). Broker non-votes will have no effect on the two stockholder proposals (Proposals Five and Six).

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 the Company s employee stock ownership plans may vote their shares over the telephone or on the Internet. The law of Delaware, under which the Company 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 stockholder. The voting procedures available to registered shareholders for the Annual Meeting are designed to authenticate each stockholder by use of a Control Number, to allow stockholders to vote their shares, and to confirm that their instructions have been properly recorded.

Registered stockholders 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 stockholder 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 the Company 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

On December 31, 2001, there were 108,552,545 shares of the Company s Common Stock outstanding. The following entities beneficially owned, to the Company s knowledge, more than five percent of the outstanding Common Stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Unitrin, Inc.(a)	9,282,421 shares	8.55%
One East Wacker Drive, Chicago, IL 60601		
U.S. Trust Company, N.A.(b)(c)	8,128,931 shares	7.49%
515 So. Flower St., #2800, Los Angeles, CA 90071		
State Street Bank and Trust Company(d)	6,296,094 shares	5.80%
225 Franklin St., Boston, MA 02110		
Prudential Financial, Inc.(e)	5,689,268 shares	5.24%
751 Broad St., Newark, N.J. 07102		

(a) This information was provided by Unitrin, Inc. in a Schedule 13D/A filed with the SEC on February 14, 2002. According to Unitrin, as of December 31, 2001, Unitrin had sole voting and dispositive power over 1,617,140 shares and shared voting and dispositive power over 7,665,281 shares.

(b) This information was provided by U.S. Trust Company, N.A. in a Schedule 13G/A filed with the SEC on January 30, 2002. 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 shared dispositive and voting power over 8,128,931 shares held in the Master Trust between Northrop Grumman Corporation and the Trustee.

(c) 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.

(d) This information was provided by State Street Bank and Trust Company (State Street) in a Schedule 13G filed with the SEC on February 6, 2002. According to State Street, as of December 31, 2001, State Street had sole voting power over 1,948,208 shares, shared voting power over 4,157,591 shares, sole dispositive power over 6,291,218 and shared dispositive power over 4,876 shares. This total includes 4,032,315 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.

(e) This information was provided by Prudential Financial, Inc. (Prudential) in a Schedule 13G filed with the SEC on February 14, 2002. According to Prudential, as of December 31, 2001, Prudential had sole voting and dispositive power over 588,857 shares, shared voting power over 4,893,571 shares and shared dispositive power over 5,100,411 shares.

Stock Ownership of Officers and Directors

The following table shows beneficial ownership (as defined by applicable rules for proxy statement reporting purposes) of the Company s Common Stock as of March 21, 2002 (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. Together these individuals own 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 the Company.

	Number of Shares Beneficially Owned	Options Exercisable Within 60 Days	Share Equivalents(1)
Directors			
John T. Chain, Jr.	2,083	8,500	0
Lewis W. Coleman	2,608	1,500	0
Vic Fazio	792	3,000	0
Phillip Frost	11,764	8,000	1,204
Charles R. Larson	168	1,500	81
Jay H. Nussbaum	52	0	0
Aulana L. Peters	3,840	8,500	2,762
John Brooks Slaughter	1,083	8,500	0
Named Executive Officers			
Kent Kresa (2)	467,118(5)	99,999	5,323
Ronald D. Sugar (3)	1,000(6)	0	0
Richard B. Waugh, Jr.	53,723(7)	37,721	3,453
Herbert W. Anderson	6,789	43,874	1,468
Ralph D. Crosby, Jr. (4)	7,500	0	0
Directors and Executive Officers as a Group (25 persons)	632,437	310,307	19,919

(1) Share equivalents for directors represent non-voting deferred stock units acquired under the 1993 Stock Plan for Non-Employee Directors which are paid out in shares of Common Stock at the conclusion of a director-specified deferral period. The Named Executive Officers hold share equivalents with pass-through voting rights in the Northrop Grumman Savings and Investment Plan.

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

(3) Dr. Sugar is also a director of the Company.

(4) Mr. Crosby terminated employment with the Company on January 11, 2002.

(5) These shares are held in the Kresa Family Trust of which Mr. Kresa is trustee.

(6) These shares are held in the R. D. Sugar Revocable Trust of which Dr. Sugar is trustee.

(7) These shares are held in the Waugh Family Trust of which Mr. Waugh and his wife are trustees.

PROPOSAL ONE: ELECTION OF DIRECTORS

The Company s Certificate of Incorporation provides for a classified Board of Directors. Three directors in Class II will be elected at the 2002 Annual Meeting to hold office for three years until the 2005 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 II Director Nominees listed in the table below. Each of the three Class II 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 which 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 II director, and each of the three Class I and four Class III directors whose terms continue after the Annual Meeting, is obtained from the Company s records or from information furnished directly by the individual to the Company. All the nominees are presently serving on the Board of Directors.

NOMINEES FOR DIRECTOR — CLASS II

PHILLIP FROST, 65. *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, positions he has held since 1987. He was Chairman of the Department of Dermatology at Mt. Sinai Medical Center of Greater Miami, Miami Beach, Florida from 1972 to 1990. Dr. Frost was Chairman of the Board of Directors of Key Pharmaceuticals, Inc. from 1972 to 1986. He is Chairman of Whitman Education Group, and Chairman of the Board of Directors of Continucare Corporation. He is also a Trustee of the Board of the University of Miami and a member of the Board of Governors of the American Stock Exchange.

JAY H. NUSSBAUM, 58. *Executive Vice President, KPMG Consulting, Inc., a consulting company.*

Director since 2001

Jay H. Nussbaum became an Executive Vice President of KPMG Consulting, Inc. in January 2002. From October 1998 to December 2001, he was Executive Vice President for Oracle Service Industries and was a member of Oracle Corporation s Executive Committee. He began his career at Oracle in 1991 as the Senior Vice President and General Manager of what was then Oracle Federal. Mr. Nussbaum also spent 24 years at Xerox Corporation where his last position was President, Integrated Systems Operations. Mr. Nussbaum has served on a member of advisory boards and committees for the University of Maryland and has served in various advisory capacities at George Mason University and James Madison University. He is also on the board of directors of Sideware, Inc. and MicroStrategy, Inc.

JOHN BROOKS SLAUGHTER, 68. *President and Chief Executive Officer, National Action Council for Minorities in Engineering, Inc.*

Director since 1993

Dr. John Brooks Slaughter has been President and Chief Executive Officer of the National Action Council for Minorities in Engineering since June 2000. From August 1999 to May 2000, he held the position of Melbo Professor of Leadership in Education at the University of Southern California, a position he assumed in August 1999. From 1988 to July 1999, Dr. Slaughter was President of Occidental College in Los Angeles and from 1982 to 1988 he was Chancellor of the University of Maryland College Park. Prior positions have included Director of the National Science Foundation, Academic Vice President and Provost of Washington State University and Assistant Director for Astronomics, Atmospherics, Earth and Ocean Sciences at the National Science Foundation. Dr. Slaughter is a member of the National Academy of Engineering, a fellow of the American Academy of Arts and Sciences and is a director of Solutia, Inc. and International Business Machines Corporation.

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 I

KENT KRESA, 64. *Chairman and Chief Executive Officer.*

Director since 1987

Kent Kresa was elected Chief Executive Officer of Northrop Grumman in January 1990 and Chairman of the Board in September 1990. Mr. Kresa joined Northrop Grumman in 1975 as vice president and manager of the Company s Research and Technology Center and from 1976-1982 he served as corporate vice president and general manager of the Ventura Division. In 1982 he was appointed group vice president of the Company s Aircraft Group and in 1986 was named senior vice president-Technology Development and Planning. Mr. Kresa was elected President of the Company in 1987, and served in that position until September 19, 2001. Before joining the Company, Mr. Kresa was associated with the Defense Advanced Research Projects Agency and the Lincoln Laboratory at the Massachusetts Institute of Technology (M.I.T.). Mr. Kresa is a member of the National Academy of Engineering and is past Chairman of the Board of Governors of the Aerospace Industries Association and Chairman of the Defense Policy Advisory Committee on Trade. He has been elected president of the American Institute of Aeronautics and Astronautics for a one year term, which commenced in 2002, and is a member of the M.I.T. Lincoln Laboratory 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.

LEWIS W. COLEMAN, 60. *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.

AULANA L. PETERS, 60. *Retired Partner, Gibson, Dunn & Crutcher.*

Director since 1992

Aulana L. Peters is a retired partner of the law firm of Gibson, Dunn & Crutcher. Ms. Peters joined the firm in 1973 and was named a partner in 1980. From 1984 to 1988 she served as a Commissioner of the Securities and Exchange Commission. After serving as a Commissioner she returned to Gibson, Dunn & Crutcher until her retirement on December 31, 2000. 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. Since January 1, 2001, she has been a member of the Public Oversight Board of the AICPA. Ms. Peters is a director of 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).

CONTINUING DIRECTORS — CLASS III

JOHN T. CHAIN, JR., 67. *General, United States Air Force (Ret.) and Chairman of the Board, Thomas Group, a management consulting company.*

Director since 1991

During his military career, General John T. Chain held a number of Air Force commands. In 1978, he became military assistant to the Secretary of the Air Force. In 1984, he became the Director of Politico-Military

Affairs, Department of State. General Chain has been Chief of Staff of Supreme Headquarters Allied Powers Europe, and Commander in Chief, Strategic Air Command, the position from which he retired in February 1991. In March 1991, he became Executive Vice President for Burlington Northern Railroad, serving in that capacity until February 1996. In December 1996, he assumed the position of President of Quarterdeck Equity Partners, Inc. and in May 1998, he became Chairman of the Board of Thomas Group, Inc. He is also a director of R.J. Reynolds, Inc., ConAgra Foods, Inc. and Kemper Insurance Company.

VIC FAZIO, 59. *Senior Partner, Clark & Weinstock, a consulting firm.*

Director since 2000

Vic Fazio became a senior partner at Clark & Weinstock, a strategic communications consulting firm in 1999, after serving 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. He is a member of numerous boards including The Electricity Innovation Institute, The California Institute, Coro National Board of Governors, the U.S. Capitol Historical Society and the Board of Visitors, The University of California at Davis.

CHARLES R. LARSON, 65. *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 and 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, a member of the Council on Foreign Relations and a senior fellow of The CNA Corporation. He also serves on the board of directors of Constellation Energy Group, Inc., Edge Technologies, Inc., the Atlantic Council, the National Academy of Sciences Committee on International Security and Arms Control and Unocal Corporation.

RONALD D. SUGAR, 53. *President and Chief Operating Officer.*

Director since 2001

Dr. Ronald D. Sugar was elected President and Chief Operating Officer of Northrop Grumman on September 19, 2001. He was previously 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 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 & Information Systems and as a Member of the Chief Executive Office of TRW, Inc. from October 1998 to June 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 served as a member of the President s National Security Telecommunications Advisory Committee, the Conference Board Council of Operating Executives and the Board of Governors of the Aerospace Industries Association, and is currently a Trustee of the National Defense Industrial Association, and the Cleveland Institute of Music and is a national trustee of the Boys and Girls Club of America.

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 chairperson listed first:

Audit	Compensation and Management Development	Nominating and Corporate Governance	Finance	Public Issues and Policy
John Brooks Slaughter	John T. Chain, Jr.	Phillip Frost	Lewis W. Coleman	Aulana L. Peters
Lewis W. Coleman	Lewis W. Coleman	John T. Chain, Jr.	John T. Chain, Jr.	Vic Fazio
Vic Fazio	Phillip Frost	Vic Fazio	Phillip Frost	Charles R. Larson
Charles R. Larson	Jay H. Nussbaum	Charles R. Larson	Jay H. Nussbaum	John Brooks Slaughter
Aulana L. Peters		Aulana L. Peters		Ronald D. Sugar

Audit Committee

The Audit Committee meets periodically with management and with both the Company s independent auditors and the Company s Vice President of Internal Audit to review audit results and the adequacy of and compliance with the Company s system of internal controls. In addition, the Audit Committee recommends to the Board of Directors the appointment or discharge of the Company 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 responsibilities of the Audited Committee are more fully described in the Audit Committee Report on page 17. The Audit Committee held seven meetings in 2001.

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 elected officers and takes final action with respect to base salary and incentive compensation for certain other officers and key employees. It reviews the Company s compensation policies and management actions to assure the succession of qualified officers. The Compensation Committee also establishes the Company 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 the Company s 1973 Incentive Compensation Plan (the 1973 Incentive Plan). The Compensation Committee grants awards under and administers the Company s Stock Plans (as defined below) and recommends to the Board of Directors all compensation plans in which Company officers are eligible to participate. The Compensation and Management Development Committee held seven meetings in 2001.

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 the Company. 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 seven meetings in 2001.

Finance Committee

The Finance Committee reviews and makes recommendations concerning proposed dividend actions and issuance or redemption of debt or equity securities. The Finance Committee considers and makes recommendations for final action by the Board on contracts, programs, acquisitions, mergers or divestments of an unusual or material nature. 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 eight meetings in 2001.

Public Issues and Policy Committee

The Public Issues and Policy 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 Committee reviews and monitors the Company s policies and programs for ethics and business conduct and equal opportunity and diversity. This Committee also reviews and approves the Company s policy for engaging the services of consultants and commission agents. The Public Issues and Policy Committee held six meetings in 2001.

BOARD AND COMMITTEE MEETINGS

During 2001, the Board held 13 meetings and the committees described above held 35 meetings. Average attendance at all such meetings was 98%. Each director attended at least 91% of the total number of board and committee meetings he or she was eligible to attend.

COMPENSATION OF DIRECTORS

The Company paid each director an annual retainer of $32,000 and an additional $1,000 for each Board and committee meeting attended during 2001. 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 chairperson 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 the Company 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 at their election.

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. On May 21, 2001, each non-employee director received an automatic grant of options to purchase 1500 shares of Common Stock with an exercise price of $89.50 per share. The options are immediately exercisable on the grant date and 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 Northrop Grumman Board of Directors Retirement Plan, the Retirement Plan collectively, the Director Plans). The Equity Plan applies to outside directors who became 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 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. The Company also credits 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 the Company s Incentive Compensation Plan or (2) the Company did not attain the pre-established financial and non-financial measures set by the Compensation Committee for payment of awards pursuant to such Incentive Compensation Plan with respect to that preceding year. Existing directors who elected to participate in the Equity Plan will receive a special accrual into the equity participation account equal to the present value of accrued benefits under the Retirement Plan. 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 further aligns 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. All the non-employee directors participate in the Equity Plan.

Related Transactions

Ms. Peters, one of our directors, 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 the Company, providing analysis and advice with respect to pending and proposed legislation. The firm also provided legal counsel during 2001 in connection with various corporate matters.

Mr. Nussbaum, also one of our directors, was named Executive Vice President of KPMG Consulting, Inc. in January 2002. The Company paid KPMG Consulting, Inc. a total of $182,005 in 2001.

Corporate Governance Practices

At all times at least 60% of the Company s Board of Directors is composed of Independent Outside Directors, each of whom:

- has not in the last five years been an officer or employee of the Company;
- is not related to an officer of the Company by blood, marriage or adoption;
- is not, and has not within the last two years been, an officer, director, employee or 1% owner of any entity that has made or proposes to make payments for property or services in excess of 1% of the gross revenues of the Company or the other entity; and
- is not a director, partner, officer or employee of an investment banking firm, which has performed services for the Company in the last two years, or which the Company proposes to have perform services in the next year, other than as a participating underwriter in a syndicate.

The Audit, Nominating and Corporate Governance and Compensation and Management Development Committees are always composed of only Independent Outside Directors.

The Company has a retirement policy whereby directors are generally ineligible to stand for election if they will have attained age 70 by the date of the Company s Annual Meeting of Stockholders at which such election is held.

To encourage directors to have a direct and material cash investment in shares of Common Stock of the Company, the Board adopted a stock ownership guideline which encourages directors to hold shares of the Company equal in market value to three times the annual retainer, to be achieved within five years of joining the Board.

The Nominating and Corporate Governance Committee in consultation with the Chairman and CEO, considers and makes recommendations to the Board concerning the appropriate size and composition of the Board. Candidates are selected based on their qualifications, character, judgment and experience, and other relevant criteria. Final approval of a candidate is determined by the full Board.

The Board, with no members of management present, meets in executive session on a regular basis. The Audit Committee meets in executive session with the Independent Auditors and with the General Auditor regularly. All other committees are given the opportunity to meet without management present as they deem necessary.

Every year the Board of Directors conducts an assessment of its performance and, at the conclusion of the evaluation process, discusses its results.

Senior members of management are invited to make presentations to the Board or committees to provide management insight into items being discussed by the Board or committees and to bring managers with high potential into contact with the Board. In addition, Board members have free access to all other members of management and employees of the Company.

The Board of Directors believes that ensuring continuity of leadership is critical to the success of the Company. Therefore, processes are in place to:

- Annually evaluate the CEO based on a specific set of performance objectives.
- Annually provide the Compensation Committee with an assessment of persons considered potential successors to certain management positions. The results of these reviews are reported to and discussed with the Board.
- Ensure continuity of top leadership, including CEO succession.

On an annual basis, the Board of Directors holds an extended meeting to review the Company s long term strategy for each of its businesses, as well as for the Company as a whole.

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 the Company. The Compensation Committee is comprised exclusively of outside directors.

Compensation Philosophy

The Company 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 improved stockholder value can produce significant individual rewards. Failure to attain business goals will negatively affect rewards.

In addition to variations attributable to individual performance against business goals and Company performance, total executive 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 the Company s business results and individual and Company 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 for below target performance, and above competitive market median when performance exceeds target.

Deductibility of Compensation

Section 162(m) of the Internal Revenue Code (Code) generally limits the tax deduction to $1 million for compensation paid to the corporation s chief executive officer (CEO) 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 1973 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.

In March 2002, the Board of Directors approved the 2002 Incentive Compensation Plan, (the Plan) that was developed to reflect current competitive market practices within the limitations of Section 162(m). If stockholders approve the Plan as contained in Exhibit B, it will replace the 1973 Incentive Compensation Plan as amended, and compensation paid under the Plan should be deductible.

Measuring Company Performance

Consistent with the Company s business plan, sector management 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, and at its discretion modifies the CEO s written proposal of goals and numerical values for Performance Measurement Factors. Performance highlights against 2001 goals can be found below in *Chief Executive Officer Compensation*.

For Performance Year 2001 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 the Company 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 firms comprising the aerospace and defense group depicted in the performance graph in the *Stockholder Performance Presentation* following this Report and other companies designated by the Compensation Committee.

The Company uses executive surveys provided by Hewitt Associates and Towers Perrin, as well as periodic custom surveys of companies selected by the Compensation Committee to assess competitiveness of executive compensation.

Establishing Executive Compensation

The Company 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 the Company s stockholder-approved 1973 Incentive Compensation Plan as amended. Performance criteria, as approved by shareholders, include objective tests of financial performance. The Compensation Committee appropriates an amount

(Tentative Appropriated Incentive Compensation) to the Plan equal to 3% of the Company s income before income taxes. However, no appropriation shall be made with respect to any Performance Year that would reduce the three-year average 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 Appropriated Incentive Compensation, as follows:

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

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 the Company 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 the Company 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 executive officers and the CEO must be ratified by the Board.

Long-Term Incentive Compensation

Stockholders approved the 2001 Long Term Incentive Stock Plan in May 2001. The Plan provides 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 compensation component is to establish long-term performance horizons for participants. By promoting ownership of the Company s common stock, the Stock Plans create stockholder-managers interested in the Company s sustained growth and prosperity.

In 1998, to further promote alignment of management and stockholder interests, the Board adopted Stock Ownership Guidelines for the CEO and other officers of the Company. These guidelines contemplate that officers own Company stock denominated as a percentage of their annual salaries, accumulated over a 3-year period: seven (7) times annual salary for the CEO; three (3) times annual salary for other elected officers; one and one-half times annual salary for appointed officers.

In August 2001 awards of stock options and restricted performance stock rights were granted to the CEO, executive officers and key employees under the terms of the 2001 Long Term Incentive Stock Plan.

Chief Executive Officer Compensation

After considering executive compensation survey data from nationally recognized survey sources, the Compensation Committee recommended and the Board approved a salary increase for Mr. Kresa effective in March 2002 in keeping with its pay philosophy.

In considering Mr. Kresa s performance and establishing his annual incentive compensation, the Compensation Committee reviewed the overall company performance against the 2001 financial and supplemental goals and Mr. Kresa s contributions during the year. The Compensation Committee noted that the company exceeded all of the Performance Measurement Criteria set forth at the beginning of the period. Additionally, the Compensation Committee recognized that under Mr. Kresa s leadership:

- Successful execution of the Company s merger and acquisition strategy resulted in closing the Litton and Aerojet Electronic Systems and Information Group transactions. The year was culminated with the successful tender offer for Newport News Shipbuilding. As a result, Northrop Grumman Corporation ended the year as the nation s third largest defense contractor with sales of $13.6 billion, with projected sales in 2002 of between $17.5 billion and $18 billion.
- The Company was restructured with the election of Dr. Ronald Sugar as President and COO, creation of three new sectors and the selection of corporate officers including new Sector Presidents. Appointments of key executive positions in every sector were completed as part of the newly aligned organizations.
- Excellent financial results were achieved with every performance target being exceeded with a resulting significant increase in stockholder value.
- Growth occurred throughout the organization with strong performance in all major programs. Overall customer satisfaction was outstanding. Contract acquisitions increased significantly with backlog increasing from $10.1 billion in 2000 to $21 billion. Stretch stockholder value creation targets were surpassed by the Company.
- The Company exceeded its contract research and development acquisition performance targets in both the Electronic Sensors and Integrated Systems sectors.
- The Company successfully teamed to win the F-35 (JSF) contract that promises significant future business. Achieving an accelerated Global Hawk program schedule resulted in operational capability and deployment in Afghanistan, underscoring Mr. Kresa s surveillance and smart weapons systems strategy. This performance ultimately led to the recently announced accelerated production contract from the U.S. Air Force.

Based on its assessment, the Compensation Committee determined and the Board ratified an incentive compensation award for Mr. Kresa for 2001 as depicted in the Summary Compensation Table.

THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

JOHN T. CHAIN, JR. CHAIRMAN
LEWIS W. COLEMAN
PHILLIP FROST
JAY H. NUSSBAUM

Stockholder Return Performance Presentation

The line graph below compares the relative change for the 5 year period ended December 31, 2001 in the cumulative total stockholder return on the Company 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, Goodrich Corporation, Honeywell International Inc., Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company (B), Rockwell Collins, Inc. and United Technologies Corporation.

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