

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 29549

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1998

or

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-3229

NORTHROP GRUMMAN CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE No. 95-1055798
 (State or other jurisdiction of (I.R.S. Employer
 incorporation or organization) Identification No.)

1840 Century Park East, Los Angeles, California 90067
 (address of principal executive offices)

(310) 553-6262

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x

No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock outstanding as of April 17, 1998 67,681,077 shares

Northrop Grumman Corporation and Subsidiaries

Part I. Financial Information

Item 1. Financial Statements

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

Dollars in millions, except per share	Three months ended March 31,	
	1998	1997
Net sales	\$2,014	\$2,118
Cost of sales		
Operating costs	1,542	1,705
Administrative and general expenses	265	217
Operating margin	207	196

Merger costs	(180)	
Interest expense	(55)	(64)
Other, net	9	2

Income(loss) before income taxes(benefit)	(19)	134
Federal and foreign income taxes(benefit)	(7)	50

Net income(loss)	\$ (12)	\$ 84
=====		
Weighted average shares outstanding, in millions	67.8	66.6
Diluted earnings(loss) per share	\$ (.18)	\$ 1.27
Basic earnings(loss) per share	\$ (.18)	\$ 1.25
Dividends per share	\$.40	\$.40
=====		

The accompanying notes are an integral part of these consolidated financial statements.

I-1

Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF FINANCIAL POSITION

[/TABLE]
[CAPTION]

Dollars in millions	March 31, 1998	December 31, 1997
	[C]	[C]

[S]		
Assets		
Cash and cash equivalents	\$ 24	\$ 63
Accounts receivable, net of progress payments of of \$3,233 in 1998 and \$2,999 in 1997	1,403	1,441
Inventoried costs, net of progress payments of \$521 in 1998 and \$495 in 1997	1,424	1,283
Deferred income taxes	79	82
Prepaid expenses	76	67

Total current assets	3,006	2,936

Property, plant and equipment	3,105	3,109
Accumulated depreciation	(1,778)	(1,763)

	1,327	1,346

Goodwill, net of accumulated amortization of \$267 in 1998 and \$244 in 1997	3,398	3,421
Other purchased intangibles, net of accumulated amortization of \$231 in 1998 and \$208 in 1997	873	896
Deferred income taxes	456	485
Prepaid pension cost, intangible pension asset and benefit trust funds	538	452
Investments in and advances to affiliates and sundry assets	144	141

	5,409	5,395

	\$ 9,742	\$ 9,677

[/TABLE]

I-2

Northrop Grumman Corporation and Subsidiaries

Dollars in millions	March 31, 1998	December 31, 1997

Liabilities and Shareholders' Equity		
Notes payable to banks	\$ 6	\$ 91
Current portion of long-term debt	200	200
Trade accounts payable	457	463
Accrued employees' compensation	365	366
Advances on contracts	322	410
Income taxes payable, including deferred income taxes of \$679 in 1998 and \$717 in 1997	697	733
Other current liabilities	496	452

Total current liabilities	2,543	2,715

Long-term debt	2,630	2,500
Accrued retiree benefits	1,752	1,716
Other long-term liabilities	46	48
Deferred income taxes	82	75
Paid-in capital		
Preferred stock, 10,000,000 shares authorized; none issued		
Common stock, 200,000,000 shares authorized; issued and outstanding:		
1998 -- 68,449,590; 1997 -- 67,278,876	943	838
Retained earnings	1,768	1,807
Unfunded pension losses, net of taxes	(22)	(22)

	2,689	2,623

	\$9,742	\$9,677
=====		

The accompanying notes are an integral part of these consolidated financial statements.

I-3

Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF CASH FLOWS

Dollars in millions	Three months ended March 31,	
	1998	1997

Operating Activities		
Sources of Cash		
Cash received from customers		
Progress payments	\$ 404	\$ 567
Other collections	1,587	1,476
Income tax refunds received	5	
Interest received	1	1

Cash provided by operating activities	1,997	2,044

Uses of Cash		
Cash paid to suppliers and employees	1,949	1,970
Interest paid	58	30
Income taxes paid	5	9
Other cash disbursements	22	

Cash used in operating activities	2,034	2,009

Net cash provided by (used in) operating activities	(37)	35

Investing Activities		
Additions to property, plant and equipment	(40)	(36)
Proceeds from sale of property, plant and equipment	3	1
Proceeds from sale of affiliates/operations		20
Other investing activities	1	

Net cash used in investing activities	(36)	(15)

Financing Activities		
Borrowings under lines of credit	95	50
Principal payments of long-term debt	(50)	(50)
Proceeds from issuance of stock	16	3
Dividends paid	(27)	(24)

Net cash provided by (used in) financing activities	34	(21)

Decrease in cash and cash equivalents	(39)	(1)
Cash and cash equivalents balance at beginning of period	63	123

Cash and cash equivalents balance at end of period	\$ 24	\$ 122
=====		

I-4

Northrop Grumman Corporation and Subsidiaries

Dollars in millions	Three months ended March 31,	
	1998	1997

Reconciliation of Net Income(Loss) to Net Cash		
Provided by(used in) Operating Activities		
Net income(loss)	\$ (12)	\$ 84
Adjustments to reconcile net income(loss) to net		
cash provided(used)		
Depreciation	46	49
Amortization of intangible assets	46	46
Common stock issued to employees	88	1
Loss(gain) on disposals of property, plant and equipment	2	(1)
Retiree benefits income	(47)	(11)
Decrease(increase) in		
Accounts receivable	(196)	(243)
Inventoried costs	(163)	(97)
Prepaid expenses	(9)	12
Increase(decrease) in		

Progress payments	260	166
Accounts payable and accruals	(23)	(7)
Provisions for contract losses	12	28
Deferred income taxes	1	15
Income taxes payable	2	37
Retiree benefits	(45)	(47)
Other transactions	1	3

Net cash provided by (used in) operating activities	\$ (37)	\$ 35
=====		

The accompanying notes are an integral part of these consolidated financial statements.

I-5

Northrop Grumman Corporation and Subsidiaries

CONSOLIDATED CONDENSED STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY

Dollars in millions	Three months ended March 31,	
	1998	1997

Paid-in Capital		
At beginning of year	\$ 838	\$ 784
Employee stock awards and options exercised	105	6

	943	790

Retained Earnings		
At beginning of year	1,807	1,502
Net income (loss)	(12)	84
Cash dividends	(27)	(24)

	1,768	1,562

Unfunded Pension Losses, Net of Taxes	(22)	(4)

Total shareholders' equity	\$2,689	\$2,348
=====		

The accompanying notes are an integral part of these consolidated financial statements.

I-6

Northrop Grumman Corporation and Subsidiaries

SELECTED INDUSTRY SEGMENT INFORMATION

Dollars in millions	Three months ended March 31,	
	1998	1997
<hr style="border-top: 1px dashed black;"/>		
Net Sales		
Aircraft	\$ 970	\$ 985
Electronics	900	975
Information Technology and Services	235	243
Intersegment sales	(91)	(85)
<hr style="border-top: 1px dashed black;"/>		
	\$ 2,014	\$ 2,118
<hr style="border-top: 1px dashed black;"/>		
Operating Profit		
Aircraft	\$ 147	\$ 134
Electronics	78	82
Information Technology and Services	23	24
<hr style="border-top: 1px dashed black;"/>		
Total operating profit	248	240
Adjustments to reconcile operating profit to operating margin:		
Other deductions included above	1	
State and local income taxes	(10)	(13)
General corporate expenses	(32)	(31)
<hr style="border-top: 1px dashed black;"/>		
Operating margin	\$ 207	\$ 196
<hr style="border-top: 1px dashed black;"/>		
Contract Acquisitions		
Aircraft	\$ 850	\$ 635
Electronics	666	1,225
Information Technology and Services	250	228
Intersegment acquisitions	(87)	(95)
<hr style="border-top: 1px dashed black;"/>		
	\$ 1,679	\$ 1,993
<hr style="border-top: 1px dashed black;"/>		
Funded Order Backlog		
Aircraft	\$ 5,873	\$ 6,695
Electronics	5,228	5,408
Information Technology and Services	462	496
Intersegment backlog	(36)	(57)
<hr style="border-top: 1px dashed black;"/>		
	\$11,527	\$12,542
<hr style="border-top: 1px dashed black;"/>		

I-7

Northrop Grumman Corporation and Subsidiaries

NOTES TO CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. They do not include all information and notes necessary for a complete presentation of financial position, results of operations, changes in shareholders' equity, and cash flows in conformity with generally accepted accounting principles. They do, however, in the opinion of management, include all adjustments (all of which were normal recurring accruals) necessary for a fair statement of the results for the periods presented. The financial statements should be read in conjunction with the Notes and

Independent Auditors' Report contained in the company's 1997 Annual Report on Form 10-K.

Merger Agreement

On July 3, 1997, the company announced that it had entered into a definitive agreement with Lockheed Martin Corporation to combine the companies. Under the terms of the agreement, 1.1923 shares of Lockheed Martin common stock would be exchanged for each share of Northrop Grumman common stock. On February 26, 1998, shareholders of Northrop Grumman approved the merger. Subsequently, the Department of Justice filed suit to block the combination. A September 8, 1998, trial date has been set, and a decision is expected by year end. The outcome cannot be predicted at this time.

The company recorded a charge of \$180 million in the first quarter of 1998 for costs related to the proposed combination. The charge covers vesting of restricted stock which became issuable following shareholder approval of the merger and other costs associated with the pending combination, such as investment banking fees, legal and accounting fees, and costs related to responding to the Government's request for information.

Comprehensive Income

The company has adopted Statement of Financial Accounting Standards No. 130 - Reporting Comprehensive Income. This standard establishes new standards for the presentation and disclosure of other comprehensive income. There were no material items in the first quarter of 1998.

Earnings per Share

Basic earnings per share are calculated using the weighted average number of shares of common stock outstanding during each period, after giving recognition to stock splits and stock dividends. Diluted earnings per share reflect the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans.

I-8

Northrop Grumman Corporation and Subsidiaries

Basic and diluted earnings per share are calculated as follows:

Three months ended March 31,	Net Income (Loss) ----- (millions)	Shares ----- (millions)	Earnings (Loss) per Share -----
1998			
Basic EPS	\$ (12) =====	67.89	\$ (.18) =====
Dilutive effect of stock options and awards		1.37 -----	
Diluted EPS	\$ (12) =====	69.26 =====	\$ (.18) =====
1997			
Basic EPS	\$ 84 =====	66.58	\$ 1.27 =====

Dilutive effect of stock options and awards		1.12	

Diluted EPS	\$ 84	67.70	\$ 1.25
	=====	=====	=====

I-9

Northrop Grumman Corporation and Subsidiaries

Item 2. MANAGEMENT'S DISCUSSION AND
ANALYSIS OF THE COMPANY'S FINANCIAL
CONDITION AND THE RESULTS OF ITS OPERATIONS

Sales were 5 percent lower in the first quarter of 1998 versus the first quarter of 1997, reflecting decreases in all three business segments - aircraft, electronics, and information technology and services.

The decline in aircraft segment sales was due to the sale last year of the company's Grumman Allied Industries subsidiary and a reduction in B-2 revenue, partially offset by increased Boeing jetliner shipset deliveries and increased F/A-18E/F sales.

Electronics segment sales decreased in the first quarter of 1998 as compared to the first quarter of 1997 due to lower volume in the electronics systems, automation, and marine business areas, partially offset by increased surveillance aircraft sales.

Sales by major program/business area and units delivered in the first quarter were:

\$ in millions	1998	1997
B-2	\$ 327	\$ 365
Surveillance Aircraft (E-8 Joint Stars, E-2)	286	245
Boeing Jetliners	233	204
Airborne Radar	148	145
Marine	114	132
F/A-18	146	129
ECM	106	103
Space	73	86
Airspace Management	63	66
C-17	60	67
Information Technology and Services	231	241
All Other	227	335
	-----	-----
	\$2,014	\$2,118
	=====	=====

Units	1998	1997
B-2	1	
747	13	11
F/A-18 C/D	9	10
C-17	2	2

Operating margin includes pension income, net of related state taxes, of \$59 million in the first quarter of 1998, a \$30 million increase from the first quarter of 1997. Substantially all of the

pension income is attributable to the aircraft segment.

I-10

Northrop Grumman Corporation and Subsidiaries

The amount and rate of operating profit increased in the aircraft segment in the first quarter of 1998 as compared with the first quarter of 1997. The aircraft segment benefited from increased pension income as well as the delivery of one B-2 bomber versus none in the first quarter of 1997. These improvements were partially offset by a decrease in B-2 production sales and lower operating margin rates on Boeing jetliners.

Electronics segment operating profit in the first quarter of 1998 decreased by 5 percent on a sales decline of 8 percent, as compared with last years first quarter. Although sales of surveillance aircraft increased in the first quarter of 1998 compared with the first quarter of 1997, the operating margin rate declined. First quarter 1998 electronics segment operating profit also declined in the electronics systems, automation, and marine business areas due to lower sales volume. Electronics segment operating margin in the first quarter of 1997 was reduced by a \$13 million pretax charge related to an increase in the cost estimate to complete the work on the Directional Infrared Countermeasures (DIRCM) program.

The company recorded a \$180 million pretax charge (\$1.70 per share after tax) in the first quarter of 1998 for merger costs related to the company's proposed combination with Lockheed Martin Corporation. The charge covers vesting of restricted stock that became issuable following the February 1998 shareholder approval of the merger as well as other costs associated with the pending combination such as investment banking fees, legal and accounting fees, and costs related to responding to the Government's request for information.

Interest expense for this year's first quarter was \$55 million, down \$9 million from the first quarter of 1997. The decrease resulted principally from a lower average level of borrowings in the first quarter of 1998 compared with the same period a year ago.

The company's effective tax rate was 36.8 percent for the first quarter of 1998, down slightly from the 37.3 percent for the comparable period in 1997.

During the quarter, \$37 million of cash was used by operations versus the \$35 million that was generated by operations in last year's first quarter. The decrease is primarily due to the merger related expenses as well as an increase in working capital for Boeing jetliners in support of increased production levels. Cash generated from operating activities and sale of assets is expected to increase in the last half of this year and is expected to be sufficient to finance capital expenditures, service debt and pay dividends. The company's liquidity and financial flexibility will continue to be provided by cash flow generated by operating activities, supplemented by the unused borrowing capacity available under the company's credit agreement and other short-term credit facilities.

I-11

Northrop Grumman Corporation and Subsidiaries

Forward-Looking Information

Certain statements and assumptions in Management's Discussion and Analysis contain or are based on "forward-looking" information (as defined in the Private Securities Litigation and Reform Act of 1995) that involves risk and uncertainties, including statements and assumptions

with respect to future revenues, program performance and cash flows, the outcome of contingencies including litigation and environmental remediation, and anticipated costs of capital investments and planned dispositions. The company's operations are necessarily subject to various risks and uncertainties; actual outcomes are dependent upon many factors, including, without limitation, the company's successful performance of internal plans; government customers' budgetary restraints; customer changes in short-range and long-range plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; government import and export policies; termination of government contracts; the outcome of political and legal processes; legal, financial, and governmental risks related to international transactions and global needs for military and commercial aircraft and electronic systems and support as well as other economic, political and technological risks and uncertainties.

I-12

Northrop Grumman Corporation and Subsidiaries

Part II OTHER INFORMATION

Item 1. Legal Proceedings

U.S. v. Lockheed Martin Corporation and Northrop Grumman Corporation

On March 23, 1998, the United States, acting through the Department of Justice, filed a civil action in the United States District Court for the District of Columbia against Lockheed Martin and the company requesting that the acquisition of the company by Lockheed Martin be adjudged to violate Section 7 of the Clayton Act and that Lockheed Martin and the company be permanently enjoined and restrained from carrying out the Agreement and Plan of Merger dated July 2, 1997, or from entering into or carrying out any agreement, understanding or plan the effect of which would be to combine the business or assets of Lockheed Martin and the company. The United States is also seeking costs of the action. Lockheed Martin and the company filed an answer to the complaint on April 10, 1998. The Court has set the matter for trial September 8, 1998. The judge advised the parties that he would issue a decision by year end.

Item 4. Submission of Matters to a vote of Security Holders

A special meeting of stockholders of Northrop Grumman was held on February 26, 1998. The results of the vote were reported in the Annual Report on Form 10-K filed on March 30, 1998.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10(a) Form of Ownership Retention Agreement and Amendment No. 1 by letter dated April 8, 1998

10(b) Master Escrow Agreement and Master Escrow Agreement Clarification dated April 8, 1998

27 Financial Data Schedule

(b) Reports on Form 8-K

A Report on Form 8-K was filed with Securities and Exchange Commission on January 21, 1998 and was reported in the Annual Report on Form 10-K filed on March 30, 1998.

II-1

Northrop Grumman Corporation and Subsidiaries

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Northrop Grumman Corporation (Registrant)

Date: April 24, 1998

by/s/N. F. Gibbs
Nelson F. Gibbs
Corporate Vice President and Controller

Date: April 24, 1998

by/s/R. R. Molleur
Richard R. Molleur
Corporate Vice President and General Counsel

Ownership Retention Agreement

The undersigned elected officer (the "Officer") of Northrop Grumman Corporation (the "Company"), and the Company, by executing and delivering this instrument, and intending to be legally bound, agree to the following:

I. Escrow of the Shares and Cash Payment.

1.01. The amount of federal, state and local income and social security, medicare and any other applicable employment tax with respect to the vesting of Restricted Performance Stock Rights that occurred as a result of the stockholder vote on February 26, 1998 approving the merger of the Company with a wholly owned subsidiary of Lockheed Martin Corporation pursuant to that certain Agreement and Plan of Merger dated as of July 2, 1997, as amended to the date hereof, shall be deemed to equal 50% of the number of shares that vested on the date of such stockholder vote multiplied by \$138.25 per share. The amount, if any, of such deemed tax in excess of the amount heretofore withheld by the Company with respect to such shares shall be paid as soon as practicable to the Officer in cash in lieu of an appropriate number of such shares valued at \$138.25 per share. Shares equal in value (at \$138.25 per share) to the amount of the tax withholding and the in-lieu cash payment shall not be issued and the Officer shall have no rights therein or thereto.

1.02. The shares of Common Stock to which the Officer is entitled (net of (i) tax withholding and (ii) the in-lieu cash payment specified in Section 1.01 hereof) are referred to herein as the "Shares." All of the Shares shall remain the property of the Officer but shall be subject to the restrictions contained in this Agreement. Annex A sets forth the number of Shares subject to this Agreement.

1.03. The Shares shall be issued in the name of the Officer and delivered to Chase Manhattan Bank and Trust Company, National Association, as Escrow Agent, pursuant to the terms of that certain Master Escrow Agreement, of even date herewith, by and among the Company, the Officer and certain other employees of the Company, and the Escrow Agent, the form of which is attached hereto as Annex B (the "Master Escrow Agreement"), and shall be held by the Escrow Agent in accordance with the terms of the Master Escrow Agreement. In lieu of delivering all of the Shares to the Escrow Agent, the Officer may elect to substitute other owned shares of Common Stock for an equal number (all or part) of the Shares, and such substituted shares of Common Stock shall thereupon become "Shares" for purposes of this Agreement in lieu of the shares for which they were substituted. During the pendency of this Agreement, the Officer may, in accordance with the provisions of the Master Escrow Agreement, elect to deliver other owned shares of Common Stock in exchange for a like number of Shares previously contributed hereunder, and such shares so exchanged shall be "Shares" for purposes of this Agreement. The restrictions imposed by this Agreement shall apply only to the Shares, and only so long as the Shares are held in escrow.

1.04. If, prior to March 1, 2000 (the "Payment Date"), the Officer neither voluntarily terminates nor is terminated for Cause as an employee of the Company, then on or before the tenth business day after the Payment Date, the Company shall instruct the Escrow Agent in writing to release and distribute to the Officer the certificate representing the Shares. If, prior to the Payment Date, the Officer dies, Retires, is terminated for a reason other than Cause as an employee of the Company, or first

becomes Disabled, and has not previously voluntarily terminated his or her employment with the Company or been terminated for Cause, then on or before the twentieth business day after the date of such death, Retirement, termination or Disability, the Company shall instruct the Escrow Agent in writing to release and distribute to the Officer (or his guardian or estate, as appropriate) the certificate representing the Shares. If, prior to the Payment Date, the Officer voluntarily terminates, other than by Retirement, or is terminated for Cause, then the Officer shall forfeit to the Company all of his right, title and interest in and to the Shares and the Company is hereby empowered, in such event, to instruct the Escrow Agent in writing to release and distribute to the Company the certificate representing the Shares.

1.05. The certificates representing the Shares shall have the following legend conspicuously imprinted on the face thereof:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO AN AGREEMENT BETWEEN THE OWNER OF SUCH SHARES AND NORTHROP GRUMMAN CORPORATION AND IN CERTAIN EVENTS SPECIFIED IN SUCH AGREEMENT MAY BE SUBJECT TO FORFEITURE. A COPY OF THE AGREEMENT MAY BE INSPECTED AT THE OFFICES OF NORTHROP GRUMMAN CORPORATION.

1.06. The Shares held in escrow pursuant hereto and pursuant to the Master Escrow Agreement may not be assigned, alienated, sold, pledged, hypothecated, or otherwise transferred, disposed of or encumbered, other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order (as defined by the Internal Revenue Code).

1.07. The Company shall promptly pay to the Officer as owner of the Shares all dividends and distributions with respect to the Shares as the same shall have been declared and paid by the Company with respect to the Common Stock, provided that the Officer shall have no right to receive any such payment if, on or prior to the date of such payment, the Officer shall have forfeited all his right, title and interest in and to the Shares pursuant to the terms of this Agreement.

1.8. As owner of the Shares, the Officer shall retain all voting rights with respect to the Shares provided to holders of shares of Common Stock under the charter or bylaws of the Company or the laws of the State of Delaware, provided that the Officer shall have no such voting rights from and after the time, if any, at which he forfeits all his right, title and interest in and to the Shares pursuant to the terms of this Agreement.

2

1.09. The Compensation and Management Development Committee of the Board of Directors of the Company may make such waivers hereunder as such Committee in its sole and absolute discretion deems appropriate.

II. Lapse of Restrictions.

2.01. All restrictions on the Shares created pursuant to this Agreement shall lapse and the Company shall deliver written notice to the Escrow Agent directing that the Shares be distributed to the Officer, if the Officer is employed by the Company at the time of the occurrence of a Change in Control that occurs prior to March 1, 2000.

III. Payment for Taxes.

3.01. If, after a final determination for federal, state or local tax purposes, the deposit of the Shares into the escrow created under the Master Escrow Agreement or the subjection of the Shares to the restrictions contained in this Agreement results in a tax liability to the Officer in excess of what the Officer's tax liability would have been had the Shares not been deposited into the escrow or been made subject to the restrictions contained in this Agreement, then the Company shall make a payment in cash to the Officer in an amount equal to any such excess tax liability grossed up to compensate the Officer for any tax liability incurred with respect to any payment made under this Section 3.01.

IV. California Law.

4.01. This Agreement shall be construed in accordance with and governed by the laws of the State of California, without giving effect to its conflicts of laws or choice of laws rules.

V. Definitions.

5.1. For all purposes of this Agreement, the following terms shall have the meanings assigned thereto in this Section 5.01:

"Cause" means the occurrence of either or both of the following: (i) the Officer's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony; or (ii) the willful engaging by the Officer in gross misconduct materially and demonstrably injurious to the Company. However, no act, or failure to act, on the Officer's part shall be considered "willful" unless done, or omitted to be done, by the Officer not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

A "Change in Control" of the Company shall be deemed to occur if and as of the first day that any one or more of the following conditions are satisfied:

3

(i) Any Person (other than those Persons in control of the Company as of November 15, 1995, or other than a trustee or fiduciary holding securities under an employee benefit plan of the Company) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities and for purposes of this section, "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended, and as used in Section 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d) and for purposes of this subsection (i) "person" or "group" shall not include underwriters acquiring newly-issued voting shares (or securities convertible into voting shares) directly from the Company with a view to distribution; or

(ii) during any period of two (2) consecutive years (not including any period prior to November 15, 1995), individuals who at the beginning of such period constitute the Board (and any new Director, whose election by the Company's stockholders was approved by a vote of a least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was so approved), cease for any reason to constitute a majority thereof; or

(iii) a merger, consolidation, or reorganization of the Company with or involving any other entity ("Merger") becomes effective upon the filing of all applicable legal

documents with the appropriate governmental authorities, or an agreement for the sale or disposition of all or substantially all of the Company's assets in one or a series of related transactions or a plan of complete liquidation of the Company ("Asset Sale") is consummated; provided that the effectiveness of a Merger shall be deemed not to constitute a Change in Control if it results in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than seventy-five percent (75%) of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such Merger; and provided, further, that if (A) a Merger becomes effective that constitutes a Change in Control, or (B) an Asset Sale is consummated, then the Officer (unless the Officer has forfeited all his right, title and interest in and to the Shares pursuant to the last sentence of Section 1.04 prior to the Change in Control) shall be deemed for all purposes of this Agreement to be employed by the Company at the time of the occurrence of such Change in Control if the Officer was employed by the Company on the date of the shareholder vote approving such Merger or Asset Sale.

"Disabled" and its correlatives mean total and permanent disability as defined in the rules of the Social Security Administration of the United States.

"employee of the Company" and its correlatives means employment by the Company or any of its subsidiaries.

"Retire," "Retirement" and their correlatives mean any retirement on or after March 1, 1999 from active service with the Company with immediate receipt of a pension benefit under a Company retirement or pension plan or, for Company elements not covered by such plans, termination by the Officer at or after age 55 following 10 or more consecutive years of Company service. If the Officer retires before March 1, 1999, such retirement shall be treated as a voluntary termination, and not as a Retirement, for all purposes of this Agreement.

VI. Amendments.

No amendment or modification to this Agreement may be made except in writing signed by the Company and the Officer.

BY SIGNING AND DELIVERING THIS AGREEMENT, THE OFFICER EXPRESSLY AGREES THAT THE OFFICER IS A PARTY TO AND IS BOUND BY THIS AGREEMENT AND THE MASTER ESCROW AGREEMENT.

IN WITNESS WHEREOF, the Company and the Officer have executed this Agreement as of the ____th day of March, 1998.

NORTHROP GRUMMAN CORPORATION

BY:-----
ITS:-----

OFFICER

SIGNATURE:-----
PRINTED NAME:-----

April 8, 1998

To: Elected Officers
Subject: Ownership Retention Agreement

We want to clarify one point concerning the Ownership Retention Agreement we sent you on April 2, 1998. Some Northrop Grumman personnel who want to elect to be covered by the Ownership Retention Agreement have asked what happens to their escrowed shares if they terminate their employment under the Good Reason provision of the Special Agreements to which they are parties.

The answer is that you will get all your escrowed shares if you terminate your employment for "Good Reason." In other words, it will be treated just as if you had been laid off or otherwise terminated for reasons other than Cause, and it will not be treated as a voluntary termination by you. The definition of "Good Reason" will be the same as set forth in the Special Agreement to which you are a party.

To cement this understanding of your benefits into the legal documents, this letter will serve to modify, as Amendment No. 1, the Ownership Retention Agreement we sent you. If you sign and return the Ownership Retention Agreement and this Amendment No. 1, your Ownership Retention Agreement will be conclusively deemed to include a new Article VII stating that:

"Termination for Good Reason (as defined in the Company's Special Agreement to which the Company and the Officer are parties) by the Officer as an employee of the Company shall be treated identically to a termination of the Officer by the Company for reasons other than Cause, for all purposes of this Agreement, the Master Escrow Agreement."

We trust that this Amendment No. 1 clarifies and confirms the extensive protections of your interests that we built into the Ownership Retention Agreement. The undersigned, on behalf of Northrop Grumman Corporation, has executed this Amendment No. 1, intending to be legally bound thereby.

Northrop Grumman Corporation

Kent Kresa

Officer Name (print)

Officer Signature

Master Escrow Agreement

This MASTER ESCROW AGREEMENT, dated as of March 25, 1998, is entered into by and among Northrop Grumman Corporation, a Delaware corporation (the "Company"), the persons named on Exhibit A hereto (each an "Employee," and collectively, the "Employees") and Chase Manhattan Bank and Trust Company, National Association, as escrow agent.

W I T N E S S E T H:

WHEREAS, the Company and each Employee have entered into an Ownership Retention Agreement dated as of March 25, 1998 (the "Ownership Retention Agreements") pursuant to which the Company has agreed to issue in the future certain shares of its common stock to the Employee if certain conditions are met and the Employee has agreed to place in escrow, for receipt in the future if certain other conditions are met (the "Conditions"), certain shares of the Company's Common Stock that Employee owns (the "Shares"); and

WHEREAS, each Employee desires to deposit certificates evidencing the Shares with the Escrow Agent pending the occurrence of events that will determine whether the Conditions are met.

NOW THEREFORE, in consideration of the premises and the mutual agreements hereinafter set forth and for other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Appointment of Escrow Agent; Acceptance. The Company and each Employee hereby appoints Chase Manhattan Bank and Trust Company, National Association (the "Escrow Agent") to act as escrow agent in accordance with the terms and provisions of this Master Escrow Agreement, and the Escrow Agent hereby accepts such appointment on the terms and provisions of this Master Escrow Agreement.

2. Deposit of Certificates. The Company, on behalf of the Employees, has deposited with the Escrow Agent certificates representing the Shares.

3. Receipt by Escrow Agent. Escrow Agent hereby acknowledges receipt of certificates representing the total number of Shares specified in Exhibit A hereto.

4. Release of the Shares.

(a) The Escrow Agent will hold the certificates representing the Shares owned by an Employee in the Escrow Agent's possession until the first business day following the date upon which the Escrow Agent receives notice as provided in Section 4(b) hereof.

(b) The Company shall give notice to the Escrow Agent as follows:

(i) If, prior to the Payment Date, an Employee neither voluntarily terminates nor is terminated for Cause as an employee of the Company, then on or before the tenth business day after the Payment Date, the Company shall instruct the Escrow Agent to release and distribute to the Employee the certificate representing the Shares owned by the Employee;

(ii) If, prior to the Payment Date, an Employee dies, Retires, is terminated for a reason other than Cause, or first becomes Disabled, and has not previously voluntarily terminated his or her employment with the Company or been terminated for Cause, then on or before the twentieth business day after the date of such death, Retirement, termination or Disability, the Company shall instruct the Escrow Agent to

release and distribute to the Employee (or his guardian or estate, as appropriate) the certificate representing the Shares owned by the Employee;

(iii) If an Employee is employed by the Company at the time of the occurrence of a Change in Control that occurs prior to March 1, 2000, then on or before the tenth business day after such occurrence, the Company shall instruct the Escrow Agent to release and distribute to the Employee the certificate representing the Shares owned by the Employee; or

(iv) If, prior to the Payment Date, an Employee voluntarily terminates, other than by Retirement, or is terminated for Cause, then the Employee shall forfeit to the Company all of his right, title and interest in and to the Shares and the Company is hereby empowered, in such event, to instruct the Escrow Agent to release and distribute to the Company the certificate representing the Shares owned by the Employee prior to such forfeiture.

(c) Forthwith upon the receipt of the notice referred to in Sections 4(b)(i), (ii) or (iii), the Escrow Agent shall release and distribute to the Employee designated in such notice (or his guardian or estate, as appropriate), the certificates representing the Shares owned by such Employee or Employees; forthwith upon the receipt of the notice referred to in Section 4(b)(iv), the Escrow Agent shall release and distribute to the Company the certificates representing the Shares owned by the Employee prior to such forfeiture; provided in either case that such action shall not then be enjoined, either preliminarily or permanently, by a court of competent jurisdiction; and provided further, that if so enjoined the Escrow Agent shall take such action at any time thereafter when such action shall no longer be enjoined. The Escrow Agent shall take all actions as are specified in this Section 4(c) as promptly as practicable following the receipt of any such notice.

(d) An Employee may give notice to the Escrow Agent that such Employee desires to substitute a number of shares of the Company's common stock held by the Employee (the "Input Shares") for an equal number of shares held in escrow pursuant to this Master Escrow Agreement (the "Output Shares"). Such notice shall be accompanied by certificates representing the Input Shares and a declaration of the Employee with guaranteed signature that the Input Shares are held by the Employee free and clear of any and all pledges, liens, encumbrances or other rights whatsoever and are freely transferable by the Employee. Upon receipt of such notice, such certificates and such declaration, the Escrow Agent shall promptly give notice of such receipt to the Company, which notice shall include a copy of each such document. Thirty days after sending such notice to the Company, the Escrow Agent shall release and distribute to the Employee the certificates representing the Output Shares, unless prior to the thirtieth day the Escrow Agent shall have received from the Company notice that in the opinion of legal counsel to the Company the Input Shares are not held by the Employee free and clear of any and all pledges, liens, encumbrances or other rights whatsoever or are not freely transferable by the Employee. If the Escrow Agent timely receives the notice from the Company described in the preceding sentence, the Escrow Agent shall not release and distribute to the Employee certificates representing the Output Shares, and the dispute shall be handled pursuant to Section 5 hereof.

5. Settlement of Disputes. Any dispute which may arise under this Master Escrow Agreement with respect to the rights of any of the parties hereto in respect of the Shares or any part thereof or the duties of the Escrow Agent hereunder shall be settled either by mutual agreement of the parties concerned (evidenced by appropriate instructions in writing to the Escrow Agent, signed by the Company and each Employee who is a party to such dispute) or by a final order, decree or judgment of a court of competent jurisdiction (the time for appeal having expired and no appeal having been perfected), all costs and expenses of which shall be borne equally by the Company and such Employee or

Employees. The Escrow Agent shall be under no duty whatsoever to institute or defend any such proceedings.

6. Concerning the Escrow Agent.

(a) The Escrow Agent shall be entitled to compensation for its services hereunder at its usual and customary rates, payable in advance on an annual basis upon the establishment of the escrow with respect to all of the Shares, and the Escrow Agent shall be reimbursed for all reasonable expenses, disbursements and advances incurred or made by the Escrow Agent in performance of its duties hereunder, including the fees and disbursements of its counsel. The payment of such fees, disbursements, expenses and advances to the Escrow Agent shall be borne by the Company.

(b) The Escrow Agent may resign and be discharged from its duties hereunder at any time by giving notice of such resignation to the Company and each Employee specifying a date not less than ten business days following the date of such notice when such resignation shall take effect. Upon such notice, a successor escrow agent shall be selected by the Company, such successor escrow agent to become the Escrow Agent hereunder upon the resignation date specified in such notice. The Escrow Agent shall continue to serve until its successor accepts the escrow and receives the Shares.

(c) The Escrow Agent undertakes to perform only such duties as are specifically set forth herein and may conclusively rely and shall be protected in acting or refraining from acting on any written notice, instrument or signature believed by it to be genuine and to have been signed or presented by the proper party or parties duly authorized to do so. The Escrow Agent shall have no responsibility for the contents of any writing contemplated herein and may rely without any liability upon the contents thereof. Notwithstanding anything to the contrary in this Master Escrow Agreement, where any action is specified to be taken by the Escrow Agent upon delivery by the Company or an Employee (or both the Company and one or more Employees) of a notice, certificate or instructions to the Escrow Agent, the Escrow Agent shall not be obligated to take any action until the appropriate party (or parties) has acted by delivering the certificate, notice or instructions to the Escrow Agent (none of which shall be binding upon the Escrow Agent unless in writing) as to the action to be taken hereunder indicating in writing that a copy of such certificate, notice or instructions has been delivered to the other party to this Master Escrow Agreement. It is acknowledged by the Company and each Employee that the Escrow Agent is bound only by the terms of this Master Escrow Agreement and the Escrow Agent may, but shall not be required to, use its discretion with respect to any matter that is the subject of this Master Escrow Agreement or with respect to instructions received under this Master Escrow Agreement.

(d) The Escrow Agent shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized hereby or within the rights or powers conferred upon it hereunder, nor for action taken or omitted to be taken by it in good faith and in accordance with the advice of counsel (which counsel may be of the Escrow Agent's own choosing), and shall not be liable for any mistakes of fact or errors of judgment or for any acts or omissions of any kind unless caused by its own willful misconduct or gross negligence. In no event shall the Escrow Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits) even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action.

(e) The Company and each Employee hereby severally, but not jointly, agree to indemnify and hold harmless the Escrow Agent and its officers, employees and agents from and against any and all costs, damages, claims, liabilities, judgments and expenses (including reasonable attorney's fees) incurred by it in connection with or arising out of the performance of its

obligations pursuant to this Master Escrow Agreement.

(f) Any corporation into which the Escrow Agent in its individual capacity may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Escrow Agent in its individual capacity shall be a party, or any corporation to which substantially all the corporate trust business of the Escrow Agent in its individual capacity may be transferred, shall be the Escrow Agent under the Escrow Agent Agreement without further act.

7. Miscellaneous.

(a) This Master Escrow Agreement shall be construed and the rights and duties of the parties determined in accordance with the laws of the State of California, without giving effect to the principles of conflict of laws thereof.

(b) This Master Escrow Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective successors.

(c) This Master Escrow Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument.

(d) Section headings contained in this Master Escrow Agreement have been inserted for reference purposes only, and shall not be construed as part of this Master Escrow Agreement. Capitalized terms not otherwise defined herein shall have the meaning assigned such terms in the Ownership Retention Agreements. The term "employee of the Company" and its correlatives mean employee of the Company or any of its subsidiaries.

(e) Any notice required or permitted to be given hereunder shall be in writing and shall be sufficient in all respects if delivered in person or mailed by registered, certified or express mail, postage prepaid, as follows:

If to Company: Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California 90067
Attention: Corporate Vice
President, Human Resources

If to Employees: As stated in Exhibit A hereto

If to Escrow Agent: Chase Manhattan Bank and Trust
Company, National Association
101 California Street, Suite 2725
San Francisco, California 94111
Attention: Corporate Trust Department

or at such other address as any party hereto shall have designated by notice in writing to the other parties hereto.

IN WITNESS WHEREOF, the undersigned duly authorized representatives of the Company and the Escrow Agent have hereunto set their hands as of the date first above written.

NORTHROP GRUMMAN CORPORATION CHASE MANHATTAN BANK AND TRUST
COMPANY, NATIONAL ASSOCIATION

By: _____ By: _____
Name: _____ Name: _____
Its: _____ Its: _____

EMPLOYEES

All employees of the Company who execute and deliver the Ownership Retention Agreements automatically become parties to this Master Escrow Agreement as of the date first above written, by the express terms of the Ownership Retention Agreements.

April 8, 1998

To: Recipients of the Ownership Retention Plan

Subject: Master Escrow Agreement Clarification

In order to help make your decision with respect to the Ownership Retention Agreement easier, Northrop Grumman agrees to the following undertakings with respect to the Master Escrow Agreement between it and Chase Manhattan Bank and Trust Company, N.A. (the "Escrow Agent").

First, Northrop Grumman agrees to bear the full costs of any indemnification of the Escrow Agent under Section 6(e) of the Master Escrow Agreement and will indemnify and hold you harmless from and against any such costs, damages, claims, liabilities, judgments and expenses (including reasonable attorney's fees) incurred by the Escrow Agent in connection with or arising out of the performance of its obligations pursuant to the Master Escrow Agreement.

Second, if there is a dispute between you and Northrop Grumman over whether your Shares of Northrop Grumman Common Stock held by the Escrow Agent are to be released to you or are to be forfeited, and such dispute is not settled by mutual agreement within ten (10) business days after it arises, then Northrop Grumman agrees that you may demand that such dispute be promptly submitted to arbitration in accordance with the then-current Model Employment Arbitration Procedures of the American Arbitration Association ("AAA") before a panel of three (3) arbitrators each of whom is then currently licensed to practice law in the state in which the arbitration is convened. The arbitration shall be held in the city in which you are or were last employed by Northrop Grumman in the nearest office of the AAA. You and Northrop Grumman shall each designate one arbitrator, and the two so selected shall select the third arbitrator, in accordance with AAA practice. The decision of two of the three arbitrators shall be the decision of the panel and shall be communicated to the Escrow Agent, which shall immediately release the Shares to the party designated by the arbitration panel.

Northrop Grumman agrees that if you elect arbitration in the preceding paragraph to settle a dispute under the Master Escrow Agreement, all expenses of such arbitration, including the fees and expenses of your legal counsel, shall be advanced and borne by Northrop Grumman; provided, however, that if the arbitration panel determines that you did not commence the arbitration in good faith and had no reasonable basis therefor, you shall repay all such advanced fees and expenses to Northrop Grumman and shall reimburse Northrop Grumman for its reasonable fees and expenses in connection therewith, all notwithstanding anything to the contrary stated in Sections 5 and 6(e) of the Master Escrow Agreement. If you elect arbitration as provided herein, Northrop Grumman agrees that the provisions stated in this letter are in lieu of and shall supersede anything to the contrary in Section 5 of the Master Escrow Agreement.

I hope that these agreements and undertakings by Northrop Grumman will make your decision easier with respect to the Ownership Retention Agreement or, if you have already signed

and returned it, will provide you with a bit more comfort that Northrop Grumman will act fairly and in your interests.

Sincerely,
/s/
Marv Elkin

<ARTICLE> 5

<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		DEC-31-1998
<PERIOD-END>		MAR-31-1998
<CASH>		24
<SECURITIES>		0
<RECEIVABLES>		1,486
<ALLOWANCES>		83
<INVENTORY>		1,424
<CURRENT-ASSETS>		3,006
<PP&E>		3,105
<DEPRECIATION>		1,778
<TOTAL-ASSETS>		9,742
<CURRENT-LIABILITIES>		2,543
<BONDS>		2,836
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		943
<OTHER-SE>		1,746
<TOTAL-LIABILITY-AND-EQUITY>		9,742
<SALES>		2,014
<TOTAL-REVENUES>		2,014
<CGS>		1,807
<TOTAL-COSTS>		1,807
<OTHER-EXPENSES>		171
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		55
<INCOME-PRETAX>		(19)
<INCOME-TAX>		(7)
<INCOME-CONTINUING>		(12)
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		(12)
<EPS-PRIMARY>		(.18)
<EPS-DILUTED>		(.18)