

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

FORM 10-Q

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

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

For the Quarter Ended
September 30, 2001

Commission File Number
1-16411

NORTHROP GRUMMAN CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

No. 95-4840775
(I.R.S. Employer Identification
Number)

1840 Century Park East, Los Angeles, California 90067
www.northropgrumman.com
(Address of principal executive offices and internet site)

(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

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 October 26, 2001

85,793,930 shares

Part I. Financial Information

Item 1. Financial Statements

**CONSOLIDATED CONDENSED STATEMENTS
OF FINANCIAL POSITION**

<i>Dollars in millions</i>	(Unaudited) September 30, 2001	December 31, 2000
Assets:		
Cash and cash equivalents	\$ 310	\$ 319
Accounts receivable, net of progress payments of \$2,838 in 2001 and \$2,367 in 2000	2,297	1,557
Inventoried costs, net of progress payments of \$3,287 in 2001 and \$535 in 2000	1,222	585
Deferred income taxes	35	21
Prepaid expenses	140	44
Total current assets	4,004	2,526
Property, plant and equipment	3,297	2,343
Accumulated depreciation	(1,211)	(1,328)
	2,086	1,015
Notes receivable	–	135
Goodwill, net of accumulated amortization of \$708 in 2001 and \$534 in 2000	6,920	3,801
Other purchased intangibles, net of accumulated amortization of \$572 in 2001 and \$467 in 2000	1,036	631
Prepaid retiree benefit cost and intangible pension asset	2,773	1,390
Assets available for sale	23	23

Miscellaneous other assets	372	101
	11,124	6,081
	\$ 17,214	\$ 9,622

<i>Dollars in millions</i>	(Unaudited)	
	September 30, 2001	December 31, 2000
Liabilities and Shareholders' Equity:		
Current portion of long-term debt	\$ 4	\$ 10
Notes payable	130	—
Trade accounts payable	757	564
Accrued employees' compensation	629	365
Advances on contracts	837	496
Income taxes payable	28	86
Deferred income taxes	345	681
Other current liabilities	1,223	486
Total current liabilities	3,953	2,688
Long-term debt	5,185	1,605
Accrued retiree benefits	1,478	1,095
Other long-term liabilities	136	39
Deferred income taxes	837	276
Mandatorily redeemable preferred stock	350	—
Paid-in capital		
Preferred stock, par value \$1, 10,000,000 shares authorized; 3,500,000 shares issued and outstanding, reported above		
Common stock, 400,000,000 shares authorized; issued and outstanding:		
2001 - 85,671,983; 2000 - 72,058,436	2,386	1,200
Retained earnings	2,928	2,742
Unearned compensation	(20)	—
Accumulated other comprehensive loss	(19)	(23)
	5,275	3,919
	\$ 17,214	\$ 9,622

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

**CONSOLIDATED CONDENSED STATEMENTS
OF INCOME**
(Unaudited)

<i>Dollars in millions, except per share</i>	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Product sales and service revenue	\$ 3,605	\$ 1,731	\$ 9,254	\$ 5,389
Cost of product sales and service revenue				
Operating costs	3,089	1,278	7,656	3,899
Administrative and general expenses	291	211	908	644
Operating margin	225	242	690	846
Interest expense	(108)	(43)	(269)	(135)
Other, net	16	41	64	45
Income from continuing operations before income taxes	133	240	485	756
Federal and foreign income taxes	54	90	189	275
Income from continuing operations	79	150	296	481
Income from discontinued operations, net of tax	—	4	—	39
Loss on disposal of discontinued operations, net of income tax expense of \$61	—	(22)	—	(37)
Net income	\$ 79	\$ 132	\$ 296	\$ 483
Weighted average shares outstanding, in millions	85.4	70.8	80.3	70.1

Basic earnings per share						
Continuing operations	\$	.85	\$	2.12	\$	3.53
Discontinued operations		—		.06		—
Disposal of discontinued operations		—		(.31)		—
						6.86
						.56
						(.53)
Basic earnings per share	\$	.85	\$	1.87	\$	3.53
						6.89
Diluted earnings per share						
Continuing operations	\$	.84	\$	2.11	\$	3.50
Discontinued operations		—		.06		—
Disposal of discontinued operations		—		(.31)		—
						6.84
						.56
						(.52)
Diluted earnings per share	\$	.84	\$	1.86	\$	3.50
						6.87
Dividends per common share	\$	.40	\$	.40	\$	1.20
						1.20
Dividends per mandatorily redeemable preferred share	\$	1.75	\$	—	\$	3.44
						—

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

**CONSOLIDATED CONDENSED STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY**
(Unaudited)

Dollars in millions	Nine months ended September 30,	
	2001	2000
Paid-in Capital		
At beginning of year	\$ 1,200	\$ 1,028
Stock issued in purchase of business	1,123	127
Employee stock awards and options exercised	63	22
	2,386	1,177
Retained Earnings		
At beginning of year	2,742	2,248
Net income	296	483
Cash dividends	(110)	(84)
	2,928	2,647
Unearned Compensation		
At beginning of year	—	—
Issuance of unvested stock options	(23)	—
Amortization of unearned compensation	3	—
	(20)	—
Accumulated Other Comprehensive Loss		
At beginning of year	(23)	(19)
Change in cumulative translation adjustment	4	—
	(19)	(19)
Total shareholders' equity	\$ 5,275	\$ 3,805

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

**CONSOLIDATED CONDENSED STATEMENTS
OF CASH FLOWS**
(Unaudited)

Dollars in millions	Nine months ended September 30,	
	2001	2000
Operating Activities		
Sources of Cash		
Cash received from customers		
Progress payments	\$ 988	\$ 1,088
Other collections	9,062	5,276
Interest received	18	17
Income tax refunds received	12	13
Other cash receipts	16	8

Cash provided by operating activities	10,096	6,402
Uses of Cash		
Cash paid to suppliers and employees	9,628	5,624
Interest paid	211	134
Income taxes paid	62	47
Other cash disbursements	3	1
Cash used in operating activities	9,904	5,806
Net cash provided by operating activities	192	596
Investing Activities		
Payment for businesses purchased, net of cash acquired	(2,316)	(42)
Proceeds from sale of business	18	668
Collection of note receivable	148	–
Additions to property, plant and equipment	(224)	(152)
Proceeds from sale of property, plant and equipment	64	23
Other investing activities	3	(6)
Net cash (used in)provided by investing activities	(2,307)	491
Financing Activities		
Proceeds from issuance of long-term debt	1,491	–
Borrowings under lines of credit	1,258	–
Repayment of borrowings under lines of credit	(450)	(119)
Principal payments of long-term debt	(53)	(286)
Proceeds from issuance of stock	34	13
Dividends paid	(110)	(84)
Other financing activities	(64)	–
Net cash provided by(used in) financing activities	2,106	(476)
(Decrease)increase in cash and cash equivalents	(9)	611
Cash and cash equivalents balance at beginning of period	319	142
Cash and cash equivalents balance at end of period	\$ 310	\$ 753

<i>Dollars in millions</i>	Nine months ended September 30,	
	2001	2000
Reconciliation of Net Income to Net Cash		
Provided by Operating Activities:		
Net income	\$ 296	\$ 483
Adjustments to reconcile net income to net cash provided		
Depreciation	191	132
Amortization of intangible assets	278	149
Common stock issued to employees	7	7
Loss on disposal of discontinued operations	–	37
Loss(gain) on disposal of property, plant and equipment	7	(6)
Retiree benefits income	(194)	(389)
Decrease(increase) in		
Accounts receivable	(361)	(446)
Inventoried costs	(284)	(185)
Prepaid expenses	(18)	(41)
Increase(decrease) in		
Progress payments	935	658
Accounts payable and accruals	(698)	(89)
Provisions for contract losses	(99)	(8)
Deferred income taxes	265	330
Income taxes payable	(112)	26
Retiree benefits	(56)	(67)
Other transactions	35	5
Net cash provided by operating activities	\$ 192	\$ 596
Noncash Investing Activities		
Note received from sale of business, net of discount	\$ –	\$ 149
Purchase of businesses		
Assets acquired	\$ 7,874	\$ 280
Cash paid	(2,316)	(36)
Common stock issued	(1,123)	(127)
Mandatorily redeemable preferred stock issued	(350)	–
Liabilities assumed	\$ 4,085	\$ 117

SELECTED INDUSTRY SEGMENT INFORMATION

(Unaudited)

Dollars in millions	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Net Sales				
Electronic Systems	\$ 1,239	\$ 688	\$ 3,176	\$ 1,953
Information Technology	1,047	377	2,653	1,180
Integrated Systems	718	706	2,217	2,371
Ship Systems	528	–	1,077	–
Component Technologies	142	–	300	–
Intersegment sales	(69)	(40)	(169)	(115)
	\$ 3,605	\$ 1,731	\$ 9,254	\$ 5,389
Operating Margin(Loss)				
Electronic Systems	\$ 99	\$ 44	\$ 214	\$ 126
Information Technology	53	29	125	93
Integrated Systems	72	51	216	264
Ship Systems	(42)	–	(9)	–
Component Technologies	(20)	–	(26)	–
Total sector operating margin	162	124	520	483
Other items included in operating margin				
Corporate expenses	(19)	(5)	(58)	(16)
Deferred state tax provision	(7)	(7)	(21)	(31)
Pension income	89	130	249	410
Operating margin	\$ 225	\$ 242	\$ 690	\$ 846
Contract Acquisitions				
Electronic Systems	\$ 1,002	\$ 1,020	\$ 4,220	\$ 3,259
Information Technology	1,064	336	3,137	1,144
Integrated Systems	420	702	1,483	1,695
Ship Systems	126	–	5,950	–
Component Technologies	235	–	516	–
Intersegment acquisitions	(44)	(25)	(186)	(128)
	\$ 2,803	\$ 2,033	\$ 15,120	\$ 5,970

SELECTED INDUSTRY SEGMENT INFORMATION

(Unaudited)

Dollars in millions	September 30,	
	2001	2000
Funded Order Backlog		
Electronic Systems	\$ 6,023	\$ 4,830
Information Technology	1,427	573
Integrated Systems	3,557	3,775
Ship Systems	4,873	–
Component Technologies	216	–
Intersegment backlog	(124)	(98)
	\$ 15,972	\$ 9,080
Assets		
Electronic Systems	\$ 5,491	\$ 3,864
Information Technology	2,140	690
Integrated Systems	2,120	2,213
Ship Systems	2,629	–
Component Technologies	1,310	–
Corporate assets	6,234	2,947
Intersegment eliminations	(2,710)	(360)
	\$ 17,214	\$ 9,354

**NOTES TO CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS**

(Unaudited)

Basis of Presentation

On April 2, 2001, NNG, Inc., a newly formed Delaware holding company, exchanged its common shares for all of the outstanding Northrop Grumman Corporation common shares on a one-for-one basis, through a merger in which Northrop Grumman Corporation became a subsidiary of NNG, Inc. In connection with this merger, NNG, Inc. changed its name to Northrop Grumman Corporation and Northrop Grumman Corporation changed its name to Northrop Grumman Systems Corporation ("Northrop Systems"). See Acquisitions footnote for additional information.

The accompanying unaudited consolidated condensed financial statements of the company 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 necessary for a fair statement of the results for the periods presented. The 2001 unaudited consolidated condensed financial data includes preliminary estimates of the fair market value of the assets acquired and liabilities assumed and the related allocations of the purchase price related to the acquisition of Litton Industries, Inc. ("Litton"). Final valuations and allocations, which are expected to be completed by December 31, 2001, may differ from the amounts included herein. The financial statements should be read in conjunction with the Notes and Independent Auditors' Report contained in Northrop Systems' 2000 annual report.

Earnings per Share

Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during each period, after giving recognition to stock splits and stock dividends. Net income available to common shareholders is calculated by reducing net income by the amount of dividends accrued on mandatorily redeemable preferred stock. Diluted earnings per share reflect the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans, and the dilutive effect of convertible debt instruments.

Basic and diluted earnings per share are calculated as follows:

<i>(in millions, except per share)</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2001	2000	2001	2000
Basic Earnings per Share				
Income from continuing operations	\$ 79	\$ 150	\$ 296	\$ 481
Less preferred dividends	6	—	12	—
Income available to common shareholders	\$ 73	\$ 150	\$ 284	\$ 481
Weighted-average common shares outstanding	85.43	70.78	80.34	70.13
Basic earnings per share from continuing operations	\$.85	\$ 2.12	\$ 3.53	\$ 6.86
Diluted Earnings per Share				
Income from continuing operations	\$ 79	\$ 150	\$ 296	\$ 481
Less preferred dividends	6	—	12	—
Income available to common shareholders	\$ 73	\$ 150	\$ 284	\$ 481
Weighted-average common shares outstanding	85.43	70.78	80.34	70.13
Dilutive effect of stock options and awards	.97	.30	.69	.22
Weighted-average diluted common shares outstanding	86.40	71.08	81.03	70.35
Diluted earnings per share from continuing operations	\$.84	\$ 2.11	\$ 3.50	\$ 6.84

Acquisitions

In 2000 Northrop Systems acquired four businesses, Federal Data Corporation, Sterling Software (U.S.) Inc., known as the Federal Systems Group, Comptek Research, Inc., and Navia Aviation AS, an operating unit of Navia ASA in Norway, for a total of \$643 million in cash and stock. The purchase method of accounting was used to record all four acquisitions. Under the purchase method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values, with the excess recorded as goodwill. The Federal Data valuations associated with certain contracts are based on preliminary estimates, which are expected to be finalized in the fourth quarter of 2001.

In April 2001, the company purchased approximately 97% of the common stock and approximately 59% of the preferred stock of Litton. The company issued 13,000,000 shares of its common stock and 3,500,000 shares of its preferred stock and paid cash for the balance of the shares. In May and June 2001, the company acquired all of the remaining shares of Litton common and preferred stock for cash.

The acquisition of Litton, which is valued at approximately \$5.2 billion, including the assumption of Litton's net debt of \$1.3 billion, is accounted for using the purchase method of accounting. These financial statements reflect preliminary estimates of the fair market value of the assets acquired and liabilities assumed and the related allocations of purchase price, and preliminary estimates of adjustments necessary to conform Litton data to the company's accounting policies. These financial statements do not include the recognition of liabilities associated with certain potential restructuring activities. The company is currently reviewing the preliminary estimates of the fair market value of assets acquired and liabilities assumed, including valuations associated with certain contracts and preliminary valuation study results for intangible assets, property, plant and equipment, and retiree benefits assets and liabilities. The company also is evaluating several possible restructuring activities of Litton operations. The final determination of the fair market value of assets acquired and liabilities assumed and final allocation of the purchase price may differ from the amounts included in these financial statements. Adjustments to the purchase price allocations are expected to be finalized by December 31, 2001, and will be reflected in future filings. There can be no assurance that such adjustments will not be material.

Goodwill and other purchased intangible assets related to the Litton acquisition are amortized on a straight-line basis over weighted average periods of 24 years and 7 years, respectively. The lives used are based on preliminary evaluations and are subject to change pending the outcome of final evaluations, which are expected to be completed by December 31, 2001. The Litton business units operating results are included from the acquisition date in the company's segment data as follows: Litton's advanced electronics

business is included in the Electronic Systems sector, Litton's information systems business is included in the Information Technology sector (formerly Logicon), Litton's ship systems business is operated as a new sector, and Litton's electronic components and materials business is operated as a new sector, Component Technologies.

The following unaudited pro forma financial information combines the results of operations of Northrop Systems and Litton as if the acquisition had taken place on January 1, 2001 and 2000, respectively, and are not necessarily indicative of future operating results of the company. In addition, the audited financial statements contained in Litton's Annual Report on Form 10-K for the fiscal year ended July 31, 2000 and the unaudited financial statements of Litton contained in Litton's Quarterly Reports on Form 10-Q for the periods ended January 31, 2001 and October 31, 2000, have been used to conform the financial reporting periods of Litton to those of the company.

<i>Dollars in millions, except per share</i>	Three months ended		Nine months ended	
	2001	September 30, 2000	2001	September 30, 2000
Net Sales	\$ 3,605	\$ 3,129	\$10,581	\$ 9,626
Net income from continuing operations	79	159	280	548
Basic earnings per share	.85	1.83	3.07	6.43
Diluted earnings per share	.84	1.82	3.04	6.37

Subsequent Acquisition

On October 19, 2001, the company completed its acquisition of the Electronics and Information Systems (EIS) Group of Aerojet-General Corporation for \$315 million in cash after securing necessary regulatory approvals. EIS provides space-borne sensing for early warning systems, weather and ground systems that process command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) data from space-based platforms, and smart weapons technology for high-priority U.S. government national security programs. The acquisition will be recorded in the fourth quarter of 2001 using the purchase method of accounting. EIS will be integrated into the Electronic Systems sector's newly formed Space Systems Division.

Proposed Acquisition

On May 23, 2001, the company announced the commencement of an exchange offer to acquire all of the outstanding shares of common stock of Newport News Shipbuilding Inc. The terms of the offer were set forth in the prospectus forming a part of the Form S-4 filed with the Securities and Exchange Commission; the company may modify its offer and reserves the right to do so. On October 23, 2001, the Department of Defense recommended to the Department of Justice that the proposed acquisition of Newport News Shipbuilding Inc. be approved and the Department of Justice filed suit to block the proposed acquisition of Newport News Shipbuilding Inc. by General Dynamics Corporation. Newport News Shipbuilding Inc. and General Dynamics Corporation announced that they had terminated their merger agreement. On November 2, 2001 the company was informed that the Department of Justice had closed its investigation of the company's proposed acquisition of Newport News Shipbuilding Inc., thereby allowing the company to proceed with the acquisition. The company is in negotiations with Newport News Shipbuilding Inc. regarding the proposed acquisition.

Notes Payable to Banks and Long-Term Debt

In February 2001, Northrop Systems issued \$1.5 billion of indebtedness pursuant to its senior debt indenture consisting of \$750 million of 7-1/8% notes due 2011 and \$750 million of 7-3/4% debentures due 2031. In connection with the closing of the Litton acquisition, the company entered into unsecured senior credit facilities with lenders which initially provided for borrowings of up to \$5 billion (the "Credit Facilities") and which replaced the company's previous credit agreement. The Credit Facilities consist of a \$2.5 billion 364-day revolving credit facility and a \$2.5 billion five-year revolving credit facility. The availability under the 364-day revolving credit facility at September 30, 2001, as reduced by the equity and other debt financing of the Litton acquisition, was \$527 million. Borrowings under the Credit Facilities, together with the proceeds of the February issuance of notes and debentures, were used to finance the Litton acquisition and to pay related expenses, to retire and refinance a portion of the Litton debt, and to finance continuing operations. Borrowings under the Credit Facilities bear interest at various rates, including adjusted LIBOR, or an alternate base rate plus, in each case, an incremental margin based on the combined company's credit rating. The Credit Facilities also provide for a facility fee on the daily aggregate amount of commitments under the revolving facilities (whether or not utilized). The facility fee is also based on the company's credit rating level. The company, Northrop Systems and Litton are co-borrowers on the Credit Facilities. The company and Litton have guaranteed the Northrop Systems outstanding indenture debt and the company and Northrop Systems have guaranteed the Litton outstanding indenture debt.

Supplemental Consolidating Information

The acquisition of Litton was funded in part by Northrop Systems' issuance of \$1.5 billion of indebtedness pursuant to its senior debt indenture consisting of \$750 million of 7-1/8% notes due 2011 and \$750 million of 7-3/4% debentures due 2031. Northrop Systems' payment obligations under the notes and debentures are fully and unconditionally guaranteed on a joint and several basis by Northrop Grumman Corporation (the "Guarantor Parent"), and by Litton (the "Guarantor Subsidiary"). The Guarantor Parent and Guarantor Subsidiary together with Northrop Systems represent all of the operations of the company. The Guarantor Parent owns 100% of Northrop Systems and the Guarantor Subsidiary.

The following condensed consolidating financial data provide information regarding Northrop Systems, the Guarantor Parent, and the Guarantor Subsidiary.

CONDENSED CONSOLIDATING STATEMENT

OF FINANCIAL POSITION

September 30, 2001
(Unaudited)

<i>Dollars in millions</i>	Northrop Grumman (Guarantor Parent)	Northrop Systems (Issuer)	Litton (Guarantor Subsidiary)	Consolidating Adjustments	Total
Assets:					
Cash and cash equivalents	\$ -	\$ 283	\$ 27	\$ -	\$ 310
Accounts receivable, net of progress payments	-	1,558	739	-	2,297
Inventoried costs, net of progress payments	-	721	501	-	1,222
Deferred income taxes	-	35	-	-	35
Prepaid expenses	-	50	90	-	140
Total current assets	-	2,647	1,357	-	4,004
Property, plant and equipment	-	2,159	1,138	-	3,297
Accumulated depreciation	-	(1,152)	(59)	-	(1,211)
	-	1,007	1,079	-	2,086

Goodwill, net	-	3,734	3,186	-	6,920
Other purchased intangibles, net	-	567	469	-	1,036
Prepaid retiree benefit cost and intangible pension asset	-	1,628	1,145	-	2,773
Investment in consolidated subsidiaries	5,559	-	-	(5,559)	-
Intercompany loan receivable	-	616	-	(616)	-
Miscellaneous other assets	-	202	193	-	395
	5,559	6,747	4,993	(6,175)	11,124
	\$ 5,559	\$ 10,401	\$ 7,429	\$ (6,175)	\$ 17,214

<i>Dollars in millions</i>	Northrop Grumman (Guarantor Parent)	Northrop Systems (Issuer)	Litton (Guarantor Subsidiary)	Consolidating Adjustments	Total
Liabilities and Shareholders' Equity:					
Current portion of long-term debt	\$ -	\$ -	\$ 4	\$ -	\$ 4
Notes payable	-	85	45	-	130
Trade accounts payable	-	513	244	-	757
Accrued employees' compensation	-	389	240	-	629
Advances on contracts	-	489	348	-	837
Income taxes payable	-	24	4	-	28
Deferred income taxes	-	345	-	-	345
Other current liabilities	23	655	545	-	1,223
Total current liabilities	23	2,500	1,430	-	3,953
Long-term debt	-	3,953	1,232	-	5,185
Accrued retiree benefits	-	1,114	364	-	1,478
Other long-term liabilities	-	67	69	-	136
Intercompany loan payable	-	-	616	(616)	-
Intercompany accounts payable	190	(58)	(132)	-	-
Deferred income taxes	-	829	8	-	837
Mandatorily redeemable preferred stock	350	-	-	-	350
Shareholders' equity	4,996	1,996	3,842	(5,559)	5,275
	\$ 5,559	\$ 10,401	\$ 7,429	\$ (6,175)	\$ 17,214

**CONDENSED CONSOLIDATING STATEMENT
OF INCOME**

Three months ended September 30, 2001
(Unaudited)

<i>Dollars in millions</i>	Northrop Grumman (Guarantor Parent)	Northrop Systems (Issuer)	Litton (Guarantor Subsidiary)	Consolidating Adjustments	Total
Product sales and service revenue	\$ -	\$ 2,185	\$ 1,423	\$ (3)	\$ 3,605
Cost of product sales and service revenue					
Operating costs	-	1,812	1,280	(3)	3,089
Administrative and general expenses	2	141	148	-	291
Operating margin	(2)	232	(5)	-	225
Interest expense	-	(82)	(26)	-	(108)

Other, net	-	14	2	-	16
Income before income taxes	(2)	164	(29)	-	133
Federal and foreign income taxes	-	66	(12)	-	54
Net income	\$ (2)	\$ 98	\$ (17)	\$ -	\$ 79

**CONDENSED CONSOLIDATING STATEMENT
OF INCOME**

Nine months ended September 30, 2001

(Unaudited)

<i>Dollars in millions</i>	Northrop Grumman (Guarantor Parent)	Northrop Systems (Issuer)	Litton (Guarantor Subsidiary)	Consolidating Adjustments	Total
Product sales and service revenue	\$ -	\$ 6,443	\$ 2,829	\$ (18)	\$ 9,254
Cost of product sales and service revenue					
Operating costs	-	5,195	2,479	(18)	7,656
Administrative and general expenses	4	627	277	-	908
Operating margin	(4)	621	73	-	690
Interest expense	-	(218)	(51)	-	(269)
Other, net	-	62	2	-	64
Income before income taxes	(4)	465	24	-	485
Federal and foreign income taxes	-	180	9	-	189
Net income	\$ (4)	\$ 285	\$ 15	\$ -	\$ 296

**CONDENSED CONSOLIDATING STATEMENT
OF CASH FLOWS**

Nine months ended September 30, 2001

(Unaudited)

<i>Dollars in millions</i>	Northrop Grumman (Guarantor Parent)	Northrop Systems (Issuer)	Litton (Guarantor Subsidiary)	Consolidating Adjustments	Total
Net cash provided by(used in) operating activities	\$ -	\$ 341	\$ (149)	\$ -	\$ 192
Investing Activities					
Payment for business purchased, net of cash acquired	(2,316)	-	-	-	(2,316)
Collection of note receivable	-	148	-	-	148
Additions to property, plant and equipment	-	(164)	(60)	-	(224)
Proceeds from sale of property, plant and equipment	-	52	12	-	64
Other investing activities	-	(2)	23	-	21
Net cash (used in)provided by investing activities	(2,316)	34	(25)	-	(2,307)
Financing Activities					
Intercompany activity	2,368	(2,799)	431	-	-
Proceeds from issuance of long-term debt	-	1,491	-	-	1,491
Borrowings under lines of credit	-	1,258	-	-	1,258
Repayment of borrowings under lines of credit	-	(197)	(253)	-	(450)
Principal payments of long-term debt	-	(11)	(42)	-	(53)
Proceeds from issuance of stock	30	4	-	-	34
Dividends paid	(82)	(28)	-	-	(110)
Other financing Activities	-	(64)	-	-	(64)
Net cash provided by(used in) financing activities	2,316	(346)	136	-	2,106
Increase(decrease) in cash and cash equivalents	-	29	(38)	-	(9)

Cash and cash equivalents balance at beginning of period		–	254		65		–	319		
Cash and cash equivalents balance at end of period	\$	–	\$	283	\$	27	\$	–	\$	310

Mandatorily Redeemable Series B Convertible Preferred Stock

The company issued 3,500,000 shares of mandatorily redeemable Series B Convertible Preferred Stock in April 2001. Each share of Series B preferred stock has a liquidation value of \$100 per share. The liquidation value, plus accrued but unpaid dividends, will be paid on April 4, 2021, the mandatory redemption date. The company has the option to redeem all but not less than all the shares of Series B preferred stock at any time after seven years from the date of issuance for a number of shares of the company's common stock equal to the liquidation value plus accrued and unpaid dividends divided by the current market price of common stock determined in relation to the date of redemption. Each share of preferred stock is convertible, at any time, at the option of the holder into the right to receive shares of the company's common stock. Initially, each share is convertible into .911 shares of common stock, subject to adjustment. Holders of preferred stock are entitled to cumulative annual cash dividends of \$7 per share, payable quarterly. In any liquidation of the company, each share of preferred stock will be entitled to a liquidation preference before any distribution may be made on the company's common stock or any series of capital stock that is junior to the Series B preferred stock. In the event of a fundamental change in control of the company, holders of Series B preferred stock also have specified exchange rights into common stock of the company or into specified securities or property of another entity participating in the change in control transaction.

Subsequent Event

Following American Classic Voyages Co.'s ("AMCV") bankruptcy filing on October 19, 2001, the company stopped work on Project America, an AMCV cruise ship program to build two 1,900-passenger cruise ships. This decision followed negotiations with the U.S. Maritime Administration, which has decided not to continue the guaranteed funding necessary to complete the construction of the ships. As a result the company recorded a pretax charge to operating margin totaling \$60 million, reported in the Ship Systems segment, in the third quarter 2001.

New Accounting Standards

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*, which replaces SFAS No. 121– *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*. SFAS No. 144 resolves implementation issues previously experienced under SFAS No. 121 and broadens the reporting of discontinued operations. This statement becomes effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is currently evaluating the effect that adoption of this standard will have on the company's results of operations and financial position.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 – *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement becomes effective for financial statements issued for fiscal years beginning after June 15, 2002. Management is currently evaluating the effect that adoption of this standard will have on the company's results of operations and financial position.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141 – *Business Combinations*, and SFAS No. 142 – *Goodwill and Other Intangible Assets*. SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. Adoption of SFAS No. 141 did not have a significant effect on the company's financial position, results of operations, or cash flows. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Upon adoption of this statement, amortization of goodwill, including goodwill recorded in past business combinations, will cease and an initial impairment assessment of goodwill will be performed. Annual impairment tests are required thereafter. The company is required to adopt SFAS No. 142 on January 1, 2002. Management is currently evaluating the effect that adoption of SFAS No. 142 will have on the company's results of operations and financial position.

In June 1998 the Financial Accounting Standards Board issued SFAS No. 133 – *Accounting for Derivative Instruments and Hedging Activities*, subsequently amended by SFAS No. 138 - *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which became effective for fiscal years beginning after June 15, 2000. This standard provides authoritative guidance on accounting and financial reporting for derivative instruments. The company adopted this standard on January 1, 2001. Adoption of this standard did not have a significant effect on the company's financial position, results of operations, or cash flows.

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

In 2000 Northrop Systems acquired four businesses, Federal Data Corporation, Sterling Software (U.S.) Inc., known as the Federal Systems Group, Comptek Research, Inc., and Navia Aviation AS, an operating unit of Navia ASA in Norway, for a total of \$643 million in cash and stock. The purchase method of accounting was used to record all four acquisitions. Under the purchase method of accounting, the purchase price is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values, with the excess recorded as goodwill. The Federal Data valuations associated with certain contracts are based on preliminary estimates, which are expected to be finalized in the fourth quarter of 2001.

In April 2001, the company completed the exchange offer made in connection with the acquisition of Litton Industries, Inc. ("Litton"). The Litton business units operating results are included from the acquisition date in the company's segment data as follows: Litton's advanced electronics business is included in the Electronic Systems sector, Litton's information systems business is included in the Information Technology sector (formerly Logicon), Litton's ship systems business is operated as a new sector, and Litton's electronic components and materials business is operated as a new sector, Component Technologies. The Integrated Systems sector is unchanged by the acquisition of Litton.

The Litton advanced electronics businesses design, develop and manufacture inertial navigation, guidance and control, IFF (identification friend or foe), marine electronic systems, and electronic warfare systems and integrate avionics systems and shipboard information and communication systems. The US Government is a significant customer.

The Litton information systems businesses design, develop, integrate and support computer-based information systems and provide information technology and services primarily for government customers.

The Litton ship systems business is engaged in the building of large multimission non-nuclear surface ships for the US Navy as well as for other government and commercial customers worldwide and is a provider of overhaul, repair, modernization, ship design and engineering services. The US Government is a significant customer.

The Litton component technologies businesses are international suppliers of complex backplanes, connectors, laser crystals, solder materials, specialty products and other electronic components used primarily in the telecommunications, industrial and computer markets.

Sales for the third quarter 2001 more than doubled to \$3.6 billion and for the first nine months increased 72 percent to \$9.3 billion, as compared with the same periods of 2000. These changes are primarily due to businesses acquired, Litton in 2001 and Comptek Research Inc., Federal Data Corporation, and the Federal Systems Group of Sterling Software Inc. in 2000, as well as organic growth in Electronic Systems and Information Technology. Excluding the acquisitions, sales were 12 percent and 7 percent higher for the third quarter and first nine months of 2001, as compared with the same periods a year ago. Total company sales for 2001 are expected to be over \$13 billion.

Sales by business area in the third quarter were:

<i>Dollars in millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2001	2000	2001	2000
Electronic Systems				
Aerospace Electronic Systems	\$ 390	\$ 260	\$ 1,154	\$ 808
Command, Control, Communications, Intelligence and Naval Systems (C3I&N)	224	215	665	576
Navigation Systems	274	-	512	-
Defensive Electronic Systems	198	117	460	320
Other	153	96	385	249
	1,239	688	3,176	1,953
Information Technology				
Government Information Technology	655	186	1,548	572
Enterprise Information Technology	195	17	544	118
Technology Services	133	125	375	360
Commercial Information Technology	64	49	186	130
	1,047	377	2,653	1,180
Integrated Systems				
Air Combat Systems (ACS)	361	379	1,173	1,331
Airborne Early Warning and Electronic Warfare (AEW/EW)	180	166	534	545
Airborne Ground Surveillance and Battle Management (AGS/BM)	175	165	516	511
Intrasegment Eliminations	2	(4)	(6)	(16)
	718	706	2,217	2,371
Ship Systems	528	-	1,077	-
Component Technologies	142	-	300	-
Intersegment eliminations	(69)	(40)	(169)	(115)
Total sales	\$ 3,605	\$ 1,731	\$ 9,254	\$ 5,389

Electronic Systems sales were 80 percent higher in the third quarter and 63 percent higher in the first nine months of 2001 versus the same periods a year ago. Excluding Litton, sales were 28 percent and 27 percent higher for the quarter and first nine months of 2001, respectively, as compared with the same periods a year ago. This year's third quarter and first nine months reflect higher revenue on land combat systems and combat avionics systems, both included in the Aerospace Electronic Systems business area, and automation and information systems, included in the "Other" business area. The new business area, Navigation Systems, includes all of Litton's navigation related businesses and is expected to have annual sales of approximately \$1 billion. For 2001, the company expects Electronic Systems sales to be approximately \$4.5 billion.

Electronic Systems operating margin increased to \$99 million for the third quarter and \$214 million for the first nine months of 2001 from \$44 million and \$126 million, respectively, reported for the same periods a year ago. Approximately half of the increase in both periods is due to the acquisition of Litton. The remainder of the increase is primarily due to improved performance in land combat systems and the automation and information business.

Information Technology sales were \$1,047 million in the third quarter and \$2,653 million in the first nine months of 2001 versus \$377 million and \$1,180 million for the same periods, respectively, in 2000. The increases are due to sales generated by businesses acquired, i.e., Litton's Information Systems in 2001 and Federal Data Corporation and Sterling's Federal Systems Group in the fourth quarter of 2000, as well as to growth of existing business. Excluding the acquisitions, sales were 15 percent and 4 percent higher for the third quarter and first nine months of 2001, as compared with the same periods a year ago, reflecting growth in the Government Information Technology and Enterprise Information Technology business areas. Federal Data's and the sector's previously existing reseller business are reported in the new business area, Enterprise Information Technology. Prior year business area sales have been reclassified to reflect the newly formed business area and other organizational changes. Most of the sales contributed by the Litton business units are reflected in the Government Information Technology business area. For 2001, Information Technology sector sales are expected to be slightly above \$3.5 billion.

Information Technology operating margin in the third quarter and first nine months of 2001 was \$53 million and \$125 million, respectively, up from the \$29 million and \$93 million reported for the same periods of 2000. The increases reflect the addition of the newly acquired businesses and high margin product sales in the third quarter of 2001. Last year Information Technology benefited from noncash positive adjustments related to retiree benefits of \$5 million in the third quarter and \$15 million in the first nine months of the year.

The Integrated Systems sector generated sales of \$718 million in the third quarter of 2001, up slightly from the \$706 million reported for the same period a year ago. Sales for the first nine months of 2001 were \$2,217 million, down 6 percent as compared to the first nine months of 2000, primarily due to lower B-2 sales, which are included in the Air Combat Systems business area.

Integrated Systems operating margin for the third quarter and first nine months of 2001 was \$72 million and \$216 million, respectively, compared with \$51 million and \$264 million reported for the same periods of 2000. Third quarter 2001 results include a \$20 million positive adjustment for contract closeouts, \$10 million improvement on Joint STARS, and downward cumulative margin rate adjustments on unmanned vehicle contracts totaling \$10 million. Last year's first nine months results included upward cumulative margin rate adjustments on the F/A-18E/F totaling \$16 million and the delivery of three B-2's.

Ship Systems sales were \$528 million and \$1,077 million for the third quarter and first nine month periods, respectively, of 2001. Operating loss was \$42 million for the quarter and \$9 million for the nine month period. Amortization of goodwill and purchased intangibles increased from \$13 million in the second quarter to \$22 million in the third quarter due to an adjustment to preliminary estimates of intangible asset values and useful lives. For 2001, Ship Systems sales are expected to be approximately \$1.6 billion.

Following American Classic Voyages Co.'s ("AMCV") bankruptcy filing on October 19, 2001, the company stopped work on Project America, an AMCV cruise ship program to build two 1,900-passenger cruise ships. This decision followed negotiations with the U.S. Maritime Administration, which has decided not to continue the guaranteed funding necessary to complete the construction of the ships. As a result the company recorded a pretax charge to operating margin totaling \$60 million, reported in the Ship Systems segment, in the third quarter 2001.

The Component Technologies sector reported sales for the third quarter and first nine months of 2001 of \$142 million and \$300 million, respectively, with operating losses of \$20 million and \$26 million, respectively. Component Technologies operating margin was impacted by the downturn in the telecommunications industry and by the effect of amortization of goodwill and purchased intangibles resulting from the acquisition of Litton. Amortization increased from \$13 million in the second quarter to \$24 million in the third quarter due to an adjustment to preliminary estimates of intangible asset values and useful lives. For 2001, Component Technologies sales are expected to be approximately \$400 million.

Operating margin included pension income of \$89 million for the third quarter and \$249 million for the first nine months of 2001, down from the \$130 million and \$410 million, respectively, for the same periods last year. Pension income for 2001, including the Litton plans, is expected to be approximately \$340 million.

Corporate expenses, which are reflected in operating margin, were \$19 million and \$58 million for the third quarter and first nine months of 2001, respectively, compared with \$5 million and \$16 million for the same periods last year. The increases are attributable to employee retention costs related to the Litton acquisition and a higher mark-to-market adjustment on restricted stock awards granted to employees under the long-term incentive stock plan. The second quarter of 2001 includes a \$17 million nonrecurring payment into a charitable foundation.

Other income was \$16 million in the third quarter of 2001 compared with \$41 million for the third quarter of 2000. Last year's third quarter included \$18 million of interest income and a pretax gain of \$16 million on the sale of stock owned in Satcon Technology Corporation. Other income for the first nine months of 2001 was \$64 million compared with \$45 million for the same period of 2000. This year's other income includes gains on property sales of approximately \$18 million and higher interest income earned on a note received in partial payment for the sale in 2000 of the company's commercial aerostructures (Aerostructures) business and on the temporary investment of excess cash.

Interest expense increased to \$108 million and \$269 million for this year's third quarter and first nine months, respectively, compared with \$43 million and \$135 million for the same periods last year. The increases are due to the new debt issued to fund the acquisition of Litton as well as the assumption of Litton debt.

Income from discontinued operations, net of tax, and the loss on disposal of discontinued operations, net of tax, are attributable to the Aerostructures business, which was sold in July 2000.

The company's effective tax rate increased to 39 percent for the first nine months of 2001 from the 36 percent for the same period in 2000, principally due to increased nondeductible goodwill amortization.

In April 2001, the company purchased approximately 97% of the common stock and approximately 59% of the preferred stock of Litton. The company issued 13,000,000 shares of its common stock and 3,500,000 shares of its preferred stock and paid cash for the balance of the shares. In May and June 2001, the company acquired all of the remaining shares of Litton common and preferred stock for cash.

The acquisition of Litton, which is valued at approximately \$5.2 billion, including the assumption of Litton's net debt of \$1.3 billion, is accounted for using the purchase method of accounting. These financial statements reflect preliminary estimates of the fair market value of the assets acquired and liabilities assumed and the related allocations of purchase price, and preliminary estimates of adjustments necessary to conform Litton data to the company's accounting policies. These financial statements do not include the recognition of liabilities associated with certain potential restructuring activities. The company is currently reviewing the preliminary estimates of the fair market value of assets acquired and liabilities assumed, including valuations associated with certain contracts and preliminary valuation study results for intangible assets, property, plant and equipment, and retiree benefits assets and liabilities. The company also is evaluating several possible restructuring activities of Litton operations. The final determination of the fair market value of assets acquired and liabilities assumed and final allocation of the purchase price may differ from the amounts included in these financial statements. Adjustments to the purchase price allocations are expected to be finalized by December 31, 2001, and will be reflected in future filings. There can be no assurance that such adjustments will not be material.

On October 19, 2001, the company completed its acquisition of the Electronics and Information Systems (EIS) Group of Aerojet-General Corporation for \$315 million in cash after securing necessary regulatory approvals. EIS provides space-borne sensing for early warning systems, weather and ground systems that process command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) data from space-based platforms, and smart weapons technology for high-priority U.S. government national security programs. The acquisition will be recorded in the fourth quarter of 2001 using the purchase method of accounting. EIS will be integrated into the Electronic Systems sector's newly formed Space Systems Division.

On May 23, 2001, the company announced the commencement of an exchange offer to acquire all of the outstanding shares of common stock of Newport News Shipbuilding Inc. The terms of the offer were set forth in the prospectus forming a part of the Form S-4 filed with the Securities and Exchange Commission; the company may modify its offer and reserves the right to do so. On October 23, 2001, the Department of Defense recommended to the Department of Justice that the proposed acquisition of Newport News Shipbuilding Inc. be approved and the Department of Justice filed suit to block the proposed acquisition of Newport News Shipbuilding Inc. by General Dynamics Corporation. Newport News Shipbuilding Inc. and General Dynamics Corporation announced that they had terminated their merger agreement. On November 2, 2001 the company was informed that the Department of Justice had closed its investigation of the company's proposed acquisition of Newport News Shipbuilding Inc., thereby allowing the company to proceed with the acquisition. The company is in negotiations with Newport News Shipbuilding Inc. regarding the proposed acquisition.

During the first nine months of 2001, \$192 million of cash was provided by operating activities versus the \$596 million generated in the same period last year. The lower cash generated in the first nine months of 2001 reflects approximately \$340 million of nonrecurring cash payments related to the Litton acquisition including change in control payments to employees, funding of pension plans, and payments to investment bankers and other transaction costs associated with the Litton acquisition. The 2001 nine-month period ending September 30 also reflected an increase in working capital in the Electronic Systems and Ship Systems sectors.

In February 2001, Northrop Systems issued \$1.5 billion of indebtedness pursuant to its senior debt indenture consisting of \$750 million of 7-1/8% notes due 2011 and \$750 million of 7-3/4% debentures due 2031. In connection with the closing of the Litton acquisition, the company entered into unsecured senior credit facilities with lenders which initially provided for borrowings of up to \$5 billion (the "Credit Facilities") and which replaced the company's previous credit agreement. The Credit Facilities consist of a \$2.5 billion 364-day revolving credit facility and a \$2.5 billion five-year revolving credit facility. The availability under the 364-day revolving credit facility at September 30, 2001, as reduced by the equity and other debt financing of the Litton acquisition, was \$527 million. Borrowings under the Credit Facilities, together with the proceeds of the February issuance of notes and debentures, were used to finance the Litton acquisition and to pay related expenses, to retire and refinance a portion of the Litton debt, and to finance continuing operations. Borrowings under the Credit Facilities bear interest at various rates, including adjusted LIBOR, or an alternate base rate plus, in each case, an incremental margin based on the combined company's credit rating. The Credit Facilities also provide for a facility fee on the daily aggregate amount of commitments under the revolving facilities (whether or not utilized).

The facility fee is also based on the company's credit rating level. The company, Northrop Systems and Litton are co-borrowers on the Credit Facilities. The company and Litton have guaranteed the Northrop Systems outstanding indenture debt and the company and Northrop Systems have guaranteed the Litton outstanding indenture debt.

For the remainder of 2001, cash generated from operations supplemented by borrowings under credit facilities are expected to be sufficient to service debt, finance capital expenditures, and continue paying dividends to the company's shareholders. The company's liquidity and financial flexibility are expected to be provided by cash flow generated by operating activities, supplemented by the borrowing capacity available under the company's credit facilities. With the completion of the B-2 EMD contract, federal and state income taxes that have been deferred since the inception of the contract in 1981 will become payable. The contract is now expected to be completed in the fourth quarter of 2002. The associated federal and state taxes totaling approximately \$1 billion will become payable in March 2003. The company plans to use cash generated from operations supplemented by additional borrowings under the credit facilities and/or additional funds raised from public or private capital markets to pay these taxes.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 – *Accounting for the Impairment or Disposal of Long-Lived Assets*, which replaces SFAS No. 121 – *Accounting for the Impairment or Disposal of Long-lived Assets and for Long-Lived Assets to Be Disposed Of*. SFAS No. 144 resolves implementation issues previously experienced under SFAS No. 121 and broadens the reporting of discontinued operations. This statement becomes effective for financial statements issued for fiscal years beginning after December 15, 2001. Management is currently evaluating the effect that adoption of this standard will have on the company's results of operations and financial position.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 – *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement becomes effective for financial statements issued for fiscal years beginning after June 15, 2002. Management is currently evaluating the effect that adoption of this standard will have on the company's results of operations and financial position.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141 - *Business Combinations*, and SFAS No. 142 - *Goodwill and Other Intangible Assets*. SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. Adoption of SFAS No. 141 did not have a significant effect on the company's financial position, results of operations, or cash flows. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Upon adoption of this statement, amortization of goodwill, including goodwill recorded in past business combinations, will cease and an initial impairment assessment of goodwill will be performed. Annual impairment tests are required thereafter. The company is required to adopt SFAS No. 142 on January 1, 2002. Management is currently evaluating the effect that adoption of SFAS No. 142 will have on the company's results of operations and financial position.

In June 1998 the Financial Accounting Standards Board issued SFAS No. 133 - *Accounting for Derivative Instruments and Hedging Activities*, subsequently amended by SFAS No. 138 - *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, which became effective for fiscal years beginning after June 15, 2000. This standard provides authoritative guidance on accounting and financial reporting for derivative instruments. The company adopted this standard on January 1, 2001. Adoption of this standard did not have a significant effect on the company's financial position, results of operations, or cash flows.

Forward-Looking Information

Certain statements and assumptions in Management's Discussion and Analysis and elsewhere in this quarterly report on Form 10-Q contain or are based on "forward-looking" information (that the company believes to be within the definition in the Private Securities Litigation Reform Act of 1995) and involve risk and uncertainties. Such "forward-looking" information includes statements and assumptions with respect to future revenues, expected program performance and cash flows, the outcome of contingencies including litigation, environmental remediation, the effect of completed and planned acquisitions and divestitures of businesses, and anticipated costs of capital investments.

The company's operations are subject to various risks and uncertainties resulting from its position as a supplier, either directly or as subcontractor or team member, to the U.S. Government and its agencies as well as to foreign governments and agencies. Actual outcomes are dependent upon 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 issues and the timing of deliveries under existing contracts; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; ability to perform fixed price contracts within planned margins; government import and export policies; acquisition or termination of government contracts; the outcome of political and legal processes including risk associated with pending litigation and unasserted claims; the ability of the company to integrate acquisitions and to make planned divestitures of noncore businesses; environmental risks and unanticipated remediation costs; risks associated with labor relations; legal,

financial, and governmental risks related to international transactions and domestic and global needs for military aircraft, ships, military and civilian electronic systems and support, information technology and electronic components and materials; market risks associated with pension income; risks associated with higher debt levels; and other economic, political risks and uncertainties. Additional information regarding these factors is contained in the company's other SEC filings, including without limitation, the Northrop Systems' Annual Report on Form 10-K/A for the year ended December 31, 2000.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

The company is exposed to market risk, primarily related to interest rates and foreign currency exchange rates. Financial instruments subject to interest rate risk include fixed-rate long-term debt obligations, variable-rate short-term debt outstanding under credit facilities, short-term investments, and long-term notes receivable. A significant portion of the fixed-rate long-term debt obligations are not callable until maturity. The company may enter into interest rate swap agreements to manage its exposure to interest rate fluctuations. At September 30, 2001, no interest rate swap agreements were in effect. The company enters into foreign currency forward contracts to manage foreign currency exchange rate risk related to receipts from customers and payments to suppliers denominated in foreign currencies. At September 30, 2001, the amount of foreign currency forward contracts outstanding was not material. The company does not consider the market risk exposure relating to foreign currency exchange to be material. The company does not hold or issue derivative financial instruments for trading purposes.

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of
Northrop Grumman Corporation
Los Angeles, California

We have reviewed the accompanying consolidated condensed statements of financial position of Northrop Grumman Corporation and subsidiaries as of September 30, 2001, and the related consolidated condensed statements of income for the three-month and nine-month periods ended September 30, 2001 and 2000, and the related consolidated condensed statements of changes in shareholders' equity and cash flows. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such consolidated condensed financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2000, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 24, 2001, except for the subsequent events footnote, as to which the date is March 1, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed statement of financial position as of December 31, 2000 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Los Angeles, California
November 5, 2001

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

U.S. ex rel. Rex Robinson v. Northrop Grumman Corporation

In August 1992, the US District Court for the Northern District of Illinois unsealed a complaint brought by four individuals in the name of the United States of America, filed on August 10, 1989, seeking damages under the qui tam provision of the False Claims Act. On July 28, 1992, the government declined to intervene in this action. Plaintiffs seek damages in excess of \$113 million, most of which relate to the manner in which the company accounted for "scrap" parts at its Rolling Meadows facility in the 1980s. In 2001, the Civil Division of the US Attorney's Office filed a motion to intervene in the action, which motion was granted on October 12, 2001. The company denies the allegations and intends to vigorously defend the action.

General

The company, as a government contractor, is from time to time subject to US Government investigations relating to its operations. Government contractors that are found to have violated the False Claims Act, or are indicted or convicted for violations of other federal laws, or are considered not to be responsible contractors may be suspended or debarred from government contracting for some period of time. Such convictions could also result in fines. Given the company's dependence on government contracting, suspension or debarment could have a material adverse effect on the company. The company is involved in certain other legal proceedings arising in the ordinary course of business, none of which the company's management believes will have a material adverse effect on the company's financial condition.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1 Amended and Restated Certificate of Incorporation of Northrop Grumman Corporation, filed as Exhibit 3.1 to Registration Statement No. 333-54800 filed with the SEC on February 1, 2001 and incorporated herein by reference.

- 3.2 Certificate of Amendment of Certificate of Incorporation of Northrop Grumman Corporation, filed as Exhibit 3.2 to the company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001 and incorporated herein by reference.
- 3.3 Certificate of Amendment of Certificate of Incorporation of Northrop Grumman Corporation, filed as Exhibit 3.3 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference.
- 3.4 Restated Bylaws of Northrop Grumman Corporation, filed as Exhibit 3.2 to the company's Registration Statement No. 333-54800 filed with the SEC on February 1, 2001 and incorporated herein by reference.
- 10.1 Northrop Grumman 2001 Long-Term Incentive Stock Plan, filed as Exhibit B to the company's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 13, 2001 and incorporated herein by reference.
- 10.2 Amendment Agreement between Kent Kresa and Northrop Grumman Corporation, filed as Exhibit 10.2 to the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 and incorporated herein by reference.
- 10.3 Employment Agreement between Dr. Ronald D. Sugar and Northrop Grumman Corporation dated November 2, 2001. *
- 10.4 Form of Notice of Grant of Restricted Performance Stock Rights and Rights Agreement under the Northrop Grumman Corporation 2001 Long-term Incentive Stock Plan. *
- 10.5 Form of Notice of Grant of Stock Options and Option Agreement under the Northrop Grumman Corporation 2001 Long-term Incentive Stock Plan. *
- 10.6 Notice of Grant of Restricted Performance Stock Rights and Rights Agreement of Kent Kresa, dated August 15, 2001 under the Northrop Grumman Corporation 2001 Long-term Incentive Stock Plan. *
- 10.7 Notice of Grant of Stock Options and Option Agreement of Kent Kresa, dated August 15, 2001 under the Northrop Grumman Corporation 2001 Long-term Incentive Stock Plan. *
- 15 Letter from independent accountants regarding unaudited interim financial information. *

* Filed with this Report

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- (b) Reports on Form 8-K
No reports on Form 8-K were filed with the Securities and Exchange Commission during the quarter ended September 30, 2001.

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: November 5, 2001

by /s/ Sandra J. Wright
Sandra J. Wright
Corporate Vice President and Controller

Date: November 5, 2001

by /s/ J. H. Mullan
John H. Mullan
Corporate Vice President and Secretary

EXHIBIT (15)

Letter from Independent Accountants Regarding
Unaudited Interim Financial Information

November 5, 2001
Northrop Grumman Corporation
Los Angeles, California

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the period ended September 30, 2001 and of Northrop Grumman Systems Corporation (formerly Northrop Grumman Corporation) and subsidiaries for the period ended September 30, 2000, as indicated in our report dated November 5, 2001; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2001, is incorporated by reference in Registration Statement Nos. 33-59815, 33-59853, 333-68003, 333-40862-01, 333-61936 and 333-67266 on Form S-8, Registration Statement Nos. 333-78251, 333-85633 and 333-71290 on Form S-3 and Registration Statement Nos. 333-40862, 333-54800, 333-61506 and 333-61478 on Form S-4.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/Deloitte & Touche LLP

Deloitte & Touche LLP
Los Angeles, CA

EMPLOYMENT AGREEMENT

1. **PARTIES:** The Parties to this Employment Agreement (hereafter referred to as the "Agreement") are **DR. RONALD D. SUGAR** (hereafter referred to as "Executive") and **NORTHROP GRUMMAN CORPORATION** (hereafter referred to as "Northrop Grumman" or "the Company").
 2. **EMPLOYMENT:** For the past several months, Executive has been employed by Northrop Grumman as Corporate Vice President and President of Litton Industries, Inc. ("Litton"), a wholly owned subsidiary of Northrop Grumman. Executive's employment has been governed by the terms of several employment agreements, including but not limited to his Change of Control Employment Agreement and letter agreements dated June 21, 2000 and December 21, 2000 (hereafter collectively referred to as the "Litton Agreements"). Northrop Grumman and Executive now wish to terminate the Litton Agreements and to enter into new employment terms and conditions as set forth in this Agreement in connection with Executive's election to the position of President and Chief Operating Officer of Northrop Grumman on September 19, 2001.
 3. **TERM:** The term of this Agreement shall commence as of September 19, 2001 (the "Effective Date") and shall end three years thereafter, unless sooner terminated as hereinafter provided.
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4. **POSITION AND DUTIES:** Executive shall serve as President and Chief Operating Officer (or such other higher office to which Executive is elected) and shall be an elected officer of the Company. He will also continue as a member of the Company's Board of Directors (the "Board"). Executive shall, during the term hereof:
 - A. have such duties and responsibilities as the Chief Executive Officer ("CEO") of the Company shall designate that are consistent with the Executive's position as President and Chief Operating Officer of the Company. The Executive shall perform such duties and responsibilities in accordance with the practices and policies of the Company as are in effect from time to time. While employed as President and Chief Operating Officer, the Executive shall report exclusively to the CEO.
 - B. devote all of his business time (excluding periods of vacations and absences made necessary because of illness or other traditionally approved leave purposes), energy and skill in the performance of his duties with the Company; provided, however, that the foregoing will not prevent the Executive from (i) participating in charitable, civic, educational, professional, community or industry affairs or serving on the boards of directors or advisory boards of other companies, and (ii) managing his and his family's personal investments.
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5. **COMPENSATION AND BENEFITS:** During the term of this Agreement, the following terms shall apply:
 - A. **Base Salary:** Executive's base salary during the term of this Agreement shall be no less than \$750,000 per year, which amount shall be subject to periodic increases, but not decreases, in accordance with the Company's normal salary review process.
 - B. **ICP Bonus:** Commencing on the Effective Date, Executive shall participate in the Incentive Compensation Plan ("ICP"), a bonus plan for elected officers of the Company. His target bonus under this plan shall be 70%. He shall receive a pro-rata ICP bonus for the period of time from the Effective Date through December 31, 2001. This pro-rata ICP bonus shall be paid at the time that other elected officers receive their ICP bonuses in 2002.
 - C. **Pro-Rata Bonus:** For the period April 3, 2001 to the Effective Date, Executive shall receive a pro-rata bonus. The pro-rata calculation shall be made by using a fraction, the numerator of which is the number of days since April 3, 2001 to the Effective Date, and the denominator of which is 365, multiplied times \$775,000, for a total pro-rata bonus of \$358,836. This pro-rata bonus shall be paid at the time that elected officers receive their ICP bonuses in 2002, but no later than March 31, 2002. Executive

acknowledges that payment of this bonus, combined with other bonuses previously paid to him, fully satisfies all requirements in his Litton Agreements to pay him bonuses for his services through the Effective Date.
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- D. **Benefits:** Executive is currently covered by benefit plans of Litton. Executive shall continue to be covered by his current Litton pension plans (including the Litton Industries Inc. Retirement Plan B, the Litton Industries Inc. Restoration Plan, the Litton Financial Security and Savings Program and the Litton Industries Inc. Supplemental Executive Retirement Plan)(the "Litton pension plans") as well as various Litton welfare plans through December 31, 2001. The Company acknowledges that Executive is fully vested in the Litton Industries Inc. Restoration Plan and the Litton Industries Inc. Supplemental Executive Retirement Plan by virtue of his June 21, 2000 letter agreement. Effective January 1, 2002, Executive shall no longer accrue benefits (except with respect to vesting service in the qualified plan) under the Litton pension plans nor participate in the Litton welfare plans, but rather shall participate in the Northrop Grumman welfare plans and commence benefit accruals under the Northrop Grumman pension plans in which Northrop Grumman elected officers who are direct reports to the Company's CEO participate. These plans include, but are not limited to, the Northrop Grumman Retirement Plan, the Northrop Grumman Savings and Investment Plan, and three non-qualified supplemental executive retirement plans known as "ERISA 1", "ERISA 2" and the "CPC SERP." As of the Effective Date, Executive shall be credited with five years of vesting service (but not benefit service) under each of the three non-qualified supplemental executive retirement plans.
 - E. **Stock and Stock Options:** As of the Effective Date, Executive has been awarded a grant of 30,000 non-qualified stock options and 10,000 Restricted Performance Stock Rights ("RPSRs"). These options and RPSRs shall be subject to the terms and conditions of the Company's 2001 Long Term Incentive Stock Plan ("LTISP"), the Guide to Administration for the LTISP ("Guide") and the grant certificates provided to Executive. Executive shall also be eligible to receive future grants under the LTISP in accordance with the Company's normal practice of awarding such grants to elected officers.
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6. **PERQUISITES:** Executive shall continue to be eligible for his current Litton perquisites through December 31, 2001. Effective January 1, 2002, Executive shall be eligible for the perquisites provided to Company elected officers who are direct reports to the Company's CEO. These perquisites, which are periodically modified by the Company, are listed on Exhibit A of this Agreement. Notwithstanding Exhibit A, Executive's Financial Planning and Income Tax Preparation Benefit shall be subject to a maximum of \$15,000 (not \$9,000) per year. In addition, Executive shall be entitled to four weeks vacation per year.
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7. **RETIREE MEDICAL BENEFIT:** Executive shall be eligible to participate in the Special Officer Retiree Medical Program on the same terms and conditions as other elected officers. That program currently provides lifetime medical benefits to elected officers who retire and to their spouses, if the Executive has at least 5 years of service

as an elected officer. The program further provides that it may be modified or terminated by the Company at any time. Executive's service as an elected officer commenced April 3, 2001.

In the event that the Executive is not eligible to receive medical benefits under the Special Officer Retiree Medical Program, the Company will make the benefits otherwise provided under such program available to Executive and his spouse (during the lifetime of each) provided that the Executive (or, after his death, his spouse) reimburses the Company for the full premium for such coverage.

8. **SPECIAL AGREEMENT:** As of the Effective Date, Executive shall be provided with a March 2000 Special Agreement ("Special Agreement") with the Company providing the same protection for Executive in the event of a Change in Control of the Company as is provided to other elected officers.

9. **TERMINATION OF LITTON AGREEMENTS:** Executive hereby waives and relinquishes any and all rights and benefits he may have under his Litton Agreements, and he agrees not to make any claim, now or in the future, for

benefits under the Litton Agreements. Executive acknowledges that he has been paid all sums due under the terms of those Agreements with the exception of the pro-rata bonus referenced in Section 5.C. of this Agreement. Executive and Northrop Grumman hereby agree to terminate the Litton Agreements in their entirety as of the Effective Date; provided, however, that this termination shall not affect Executive's rights to any pension benefits in which he is vested by virtue of the Litton Agreements.

10. **SPECIAL RETENTION BENEFITS:** As of the Effective Date, Executive has been awarded a grant of 66,480 Restricted Stock Rights ("RSRs"). One third of these RSRs shall vest on September 18, 2002, one third shall vest on September 18, 2003, and the remaining one third shall vest on September 18, 2004; provided, however, that in the event Executive's employment is terminated for any of the following reasons, all remaining RSRs shall vest and all shares not yet issued pursuant to the grant certificate shall be issued as of the date of such termination: (i) the death of Executive; or (ii) Executive's "Disability" (as hereinafter defined); or (iii) termination by Northrop Grumman without "Cause" (as hereinafter defined); or (iv) termination by Executive for "Good Reason" (as hereinafter defined); provided further, that the Company shall have the right to pay equivalent cash value in lieu of issuing all or a portion of the shares of stock required by this Section 10. Except as otherwise modified by this Section 10, the RSR grant shall be governed by the terms of the LTISP, the Guide, and the grant certificate.

11. **TERMINATION OF EMPLOYMENT BY THE COMPANY:**

A. The Company shall have the right to terminate Executive's employment at any time, with or without Cause, upon giving at least 10 day's advance written notice to the Executive of the date when such termination shall become effective. If the Company terminates Executive's employment without "Cause" (as that term is defined below), then Executive shall receive, within 30 days after he signs a release (substantially in the form of Exhibit C hereto) which is not revoked, the Accrued Obligations (as defined below) (with the exception of certain benefits under Accrued Obligations, which will be paid as soon as administratively practicable), and all of the Special Severance Benefits set forth in Sections 15.A and 15.C of this Agreement, and the Benefit Continuation set forth in Section 15.B shall commence as of the date of such termination.

For purposes of this Agreement, "Cause" shall mean the occurrence of either or both of the following: (i) the willful misconduct by the Executive with regard to the Company that is significantly injurious to the Company, provided, however, that no act or failure to act on the Executive's part shall be considered "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in the best interests of the Company; or (ii) the conviction of the Executive of (or the pleading by the Executive of *nolo contendere* to)

any felony (other than traffic related offenses or as a result of vicarious liability).

B. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless the provisions of this paragraph B are complied with. Executive shall be given written notice by the CEO of the intention to terminate him for Cause, and he shall then be entitled to a meeting before the Board to present his position, provided he requests in writing such a meeting within ten calendar days of his receipt of the written notice from the CEO of the intention to terminate him. Following such a meeting, if Executive is then furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, Executive shall thereupon be terminated for Cause, which determination shall be subject to review by the arbitrator on a de novo basis.

C. In the event that Executive is terminated for "Cause," Executive will be entitled to receive only (w) any unpaid base salary through the date of termination and any accrued vacation; (x) any unpaid bonus for services rendered during the calendar year prior to the calendar year in which the termination occurs; (y) reimbursement for any unreimbursed expenses incurred through the date of termination; and (z) all other payments, benefits or fringe benefits to which the Executive may be entitled subject

to, and in accordance with, the terms of any applicable compensation arrangement or benefit, equity or fringe benefit plan or program or grant (including, but not limited to, any then vested stock options, RPSRs or RSRs) (collectively, (w) through (z) are referred to as "Accrued Obligations"), and will not receive any of the Special Severance Benefits set forth in Section 15.

12. **TERMINATION OF EMPLOYMENT BY DEATH OR DISABILITY OF EXECUTIVE:**

A. **Death:** In the event that Executive dies during the term of this Agreement, this Agreement shall automatically terminate as of the date of death without further obligation on the part of the Company, except that the Company shall pay to Executive's estate, within 30 days of death, the Accrued Obligations (with the exception of certain benefits under certain Accrued Obligations, which shall be paid as soon as administratively practicable), all of the Special Severance Benefits set forth in Sections 15.A and 15.C of this Agreement, and the Benefit Continuation set forth in Section 15.B shall apply to his eligible dependents commencing as of the date of death.

B. **Disability:** If the Executive's employment terminates by reason of his Disability (as defined below) during the term of this Agreement, this

Agreement shall terminate without further obligation to Executive, except that the Company shall provide to Executive, within 30 days after he signs a release (substantially in the form of Exhibit C hereto) which is not revoked, the Accrued Obligations (with the exception of certain benefits under Accrued Obligations, which shall be paid as soon as administratively practicable), and all of the Special Severance Benefits set forth in Sections 15.A and 15.C of this Agreement, and the Benefit Continuation set forth in Section 15.B shall commence as of the date of such termination. For purposes of this Agreement, "Disability" shall be defined as the inability of the Executive to perform his material duties hereunder due to the same or a related physical or mental injury, infirmity or incapacity for 180 days in any 365-day period. The Company may terminate the Executive for a Disability as of the end of the aforementioned period or at any time thereafter during which the Disability continues upon 30 days prior written notice provided the Executive has not returned to full time employment prior to the end of such 30-day period.

13. **TERMINATION OF EMPLOYMENT BY EXECUTIVE FOR GOOD REASON:** Executive shall have the right to terminate his employment with Northrop Grumman for "Good Reason" as that term is defined below. If he terminates his employment for "Good Reason," the Executive shall receive, within 30 days after he signs a release (substantially in the form of Exhibit C hereto) which is not revoked, the Accrued Obligations (with the exception of certain benefits under

Accrued Obligations which shall be paid as soon as administratively practicable), and all of the Special Severance Benefits set forth in Sections 15.A and 15.C of this Agreement, and the Benefit Continuation in Section 15.B shall commence as of the date of such termination. For purposes of this Agreement, "Good Reason" shall mean without the Executive's express written consent, the occurrence of any one or more of the following:

A. failure of the Company to elect Executive to the position of CEO on or before March 1, 2003;

- B. the election of a person other than Kent Kresa or Executive as CEO of the Company;
- C. the election of a Company employee other than Kent Kresa or Executive as Chairman of the Board of Northrop Grumman (the election of a non-employee to be Chairman shall not be "Good Reason");
- D. any reduction or diminution in the Executive's then titles or positions (including as a Director), a material reduction in the nature or status of the Executive's then authorities, duties, and/or responsibilities (when such authorities, duties, and/or responsibilities are viewed in the aggregate), other than an insubstantial and inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Executive;

provided that Good Reason will be deemed to exist if the Executive's reporting relationship is changed such that the Executive does not report to the Company's CEO;

- E. a reduction by the Company of the Executive's base salary as in effect on the Effective Date, or as the same shall be increased from time to time;
- F. any material failure by the Company to comply with any of the provisions of this Agreement, other than isolated and inadvertent failure(s) not occurring in bad faith and remedied by the Company promptly after receipt of notice thereof given by the Executive;
- G. the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform the Company's obligations under this Agreement, as contemplated in Section 19 herein;

Provided, however, that after April 30, 2003, Executive shall only be entitled to terminate for "Good Reason" for the reasons set forth in Paragraphs D, E, F and G of this Section 13.

Should Executive desire to terminate his employment for "Good Reason," he shall first give at least 30 days prior written notice of his intent to so

terminate to the CEO of the Company, and give the Company an opportunity to cure the event giving rise to "Good Reason."

14. **TERMINATION OF EMPLOYMENT WITHOUT GOOD REASON:** The Executive shall have the right to terminate his employment with Northrop Grumman at any time without Good Reason by giving written notice to the CEO at least thirty days in advance of such termination. In the event that Executive's employment with the Company is terminated during the term of this Agreement by Executive without Good Reason, Executive shall not be entitled to any additional payments or benefits hereunder, other than Accrued Obligations.

15. **SPECIAL SEVERANCE BENEFITS:** In the event Executive's employment terminates due to his death or Disability, or if he is terminated by Northrop Grumman without "Cause," or if he terminates employment for "Good Reason," then he shall be entitled to receive the following Special Severance Benefits, provided, however, that he first signs a release of claims in a form substantially similar to Exhibit C:

- A. **Salary and Bonus:** A payment equal to the sum of (i) one times the Executive's current annual base salary and (ii) the highest of any of the following: (x) Executive's target bonus percentage under the ICP multiplied by his then current annual base salary; or (y) the last bonus paid to Executive under the ICP prior to his termination; or (z) \$775,000, and

(iii) a pro-rata portion of the Executive's target bonus under the ICP for the calendar year in which the Executive's termination occurs (determined by multiplying such amount by a fraction, the numerator of which is the number of days during the calendar year in which the termination occurs, and the denominator of which is 365).

- B. **Benefit Continuation:** Three years of continued coverage for Executive and his eligible dependents under the Company's medical, dental, vision and life insurance plans and programs applicable to Executive at the time of his termination, on the same terms and conditions as apply to other elected officers during this three-year period.
- C. **Other Benefits:** In addition to the benefits noted above, the following additional benefits shall be paid Executive: (i) a lump sum payment equal to three times the value of his annual car allowance; (ii) continuation of his then current financial planning benefits through the end of his third financial planning year; (iii) the income tax preparation reimbursement benefit for the year in which he terminates employment and for the following two full calendar years; and (iv) outplacement benefits provided through an outside provider selected by the Executive, at a cost not to exceed \$50,000 in total.

The foregoing severance benefits shall be offset by any severance benefits Executive is entitled to receive under any other Company plan, program, practice or agreement.

16. **GROSS-UP FOR SECTION 280G PURPOSES:** In the event that the Executive becomes or has already become entitled to payments and/or benefits or any other amounts in the "nature of compensation" which would constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), (including without limitation as a result of this Agreement, the Litton Agreements (including the Change in Control Employment Agreement) or any other plan, arrangement or agreement with the Company or any affiliate (including Litton), or from any person whose actions result in a change of ownership or effective control of the Company or Litton covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or Litton or such person), the provisions of Exhibit B shall apply. For purposes of Exhibit B, the term "Change in Control" shall mean a change of ownership or effective control (as such terms are used in Section 280G and the proposed regulations thereunder) heretofore or hereafter of the Company or Litton.

17. **NO MITIGATION; NO OFFSET:** Except as set forth in this Agreement, the Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation, set-off, counterclaim, recoupment,

defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obliged to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, nor shall the amount of any payment thereunder be reduced by any compensation earned by the Executive as a result of employment by another employer.

18. **TRADE SECRETS:** In the course of performing his duties for his former employer Litton and for the Company, Executive will receive, and acknowledges that he has received, confidential information, including without limitation, information not available to competitors relating to the Company's existing and contemplated financial plans, products, business plans, operating plans, research and development information, and customer information, all of which is hereinafter referred to as "Trade Secrets." Executive agrees that he will not, either during his employment or subsequent to the termination of his employment with the Company, directly or indirectly disclose, publish or otherwise divulge any Northrop Grumman or Litton Trade Secrets to anyone outside the Company, or use such information in any manner which would adversely affect the business or business prospects of the Company; provided, however, that the foregoing shall not preclude Executive from complying with due legal process or governmental inquiry or from taking actions or making disclosures while employed by the Company in good faith performance of his duties and obligations hereunder. Executive further agrees that if, at the time of the termination of his employment

with the Company, he is in possession of any documents or other written or electronic materials constituting, containing or reflecting Trade Secrets, he will return and surrender all such documents and materials to the Company upon leaving its employ. The restrictions and protection provided for in this paragraph shall be in addition to

any protection afforded to Trade Secrets by law or equity.

19. **INVENTIONS:** Executive agrees that all inventions, discoveries and improvements, and all new ideas for manufacturing and marketing products or services of the Company, which Executive has conceived during his prior employment with Litton or may conceive while employed by the Company, whether during or outside business hours, on the premises of the Company or elsewhere, alone or in collaboration with others, or which he has acquired or may acquire from others, whether or not the same can be patented or registered under patent, copyright, or trademark laws, shall be and become the sole and exclusive property of the Company. Executive agrees to promptly disclose and fully acquaint his management with any such inventions, discoveries, improvements and ideas which he has conceived, made or acquired, and shall, at the request of the Company, make a written disclosure of the same and execute such applications, assignments, and other written instruments as may reasonably be required to grant to the Company sole and exclusive right, title and interest thereto and therein and to enable the Company to obtain and maintain patent, copyright and trademark protection therefore.

20. **NON-SOLICITATION AND NON-DISPARAGEMENT:**

- A. For a period of one year following Executive's termination of employment, Executive shall not, directly or indirectly, through aid, assistance or counsel, on his own behalf or on behalf of another person or entity (i) solicit or offer to hire any person who was, within a period of six months prior to Executive's termination, employed by the Company, or (ii) by any means issue or communicate any public statement that may be critical or disparaging of the Company, its products, services, officers, directors or employees; provided the foregoing shall not apply to truthful statements made in compliance with legal process or governmental inquiry.
- B. For a period of one year following Executive's termination from employment, the Company shall not by any means issue or communicate any public statement that may be critical or disparaging of the Executive, provided the foregoing shall not apply to truthful statements made in compliance with legal process, governmental inquiry or as required by legal filing or disclosure requirements.

21. **ASSIGNMENT:** This Agreement is personal to Executive and shall not be assigned by him. However, this Agreement shall be binding upon any entity succeeding to all or substantially all of the assets or business of the Company,

whether by merger, consolidation, acquisition or otherwise and may not otherwise be assigned by the Company.

22. **TAX WITHHOLDING:** The Company shall be entitled to withhold from any amounts payable pursuant to this Agreement all taxes as legally shall be required (including without limitation United States federal taxes, and any other state, city or local taxes).

23. **SAVINGS CLAUSE:** If any provision under this Agreement or its application is adjudicated to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application.

24. **ENTIRE AGREEMENT:** This Agreement represents the complete agreement and understanding between Executive and the Company pertaining to the subject matters contained herein, and supersedes all prior agreements or understandings, written or oral, between the Parties with respect to such subject matters.

25. **INDEMNIFICATION:** The Company hereby covenants and agrees to indemnify the Executive and hold him harmless to the fullest extent permitted by law and under the By-laws of the Company against and in respect to any and all actions, suits, proceedings, claims, demands, judgments, costs, expenses (including

attorney's fees), losses, and damages resulting from the Executive's good faith performance of his duties and obligations with the Company or with Litton (including service prior to the Effective Date hereof). The Company, within 30 days of presentation of invoices, shall advance to the Executive reimbursement of all legal fees and disbursements incurred by the Executive in connection with any potentially indemnifiable matter; provided, however, that in order to receive such advanced fees and disbursements, Executive must first sign an undertaking reasonably satisfactory to the Company that he will promptly repay the Company all advanced fees and disbursements in the event it is finally determined that Executive cannot be indemnified for the matter at issue under applicable law or Company By-laws; and provided further, that Executive shall consult with the Company prior to selecting his counsel and shall make a reasonable effort to select counsel reasonably acceptable to the Company.

26. **LIABILITY INSURANCE:** The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists (but no less than six years), after the term of this Agreement in the same amount and to the same extent, if any, as the Company covers its other officers and directors.

27. **ARBITRATION:** Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a single arbitrator in the State of California (in the major city nearest Executive's residence) in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association then in effect. The decision of the arbitrator will be final and binding upon the parties hereto. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The arbitrator may, but need not, award the prevailing party in any dispute (as determined by the arbitrator) its or his legal fees and expenses.

28. **SURVIVAL OF CERTAIN PROVISIONS.** The following provisions of this Agreement shall survive and continue to be in effect to the extent applicable following Executive's termination of employment: Section 7 (retiree medical benefit); Section 10 (special retention benefits); Section 11 (termination of employment by the Company); Section 12 (termination of employment by death or disability of Executive); Section 13 (termination of employment by Executive for good reason); Section 14 (termination of employment without good reason); Section 15 (special severance benefits); Section 16 (gross-up for Section 280G purposes); Section 17 (no mitigation; no offset); Section 18 (trade secrets); Section 19 (inventions); Section 20 (non-solicitation and non-disparagement); Section 22 (tax withholding); Section 25 (indemnification); Section 26 (liability insurance); and Section 27(arbitration). The survival of Section 16 shall also cover payments or benefits received after the termination of employment and this

Agreement if resulting from a Change in Control (as defined in Section 16) prior to such termination.

29. **GOVERNING LAW:** This Agreement shall be construed in accordance with and governed by the laws of the State of California without regard to principles of conflict of law.

Dated: _____

Executive

By **Ronald D. Sugar**

Dated: _____

NORTHROP GRUMMAN CORPORATION

By: _____

Exhibit A to Employment Agreement

Executive Perquisites for Elected Officers Who Report to the CEO

- Deferred Compensation Plan
- Executive Life Insurance—three times base salary, up to a maximum of \$600,000
- Executive Accidental Death and Dismemberment Insurance—6 times base salary, up to a maximum of \$1,000,000
- Travel Accident Insurance
- Long Term Disability—covers 65% of base pay up to a maximum of \$15,000 per month including social security
- Executive Medical—covers 100% of covered charges for Executive and dependents
- Executive Dental—covers 100% of covered benefits for Executive and dependents with a \$2,000 annual maximum
- Annual Executive Physical Exam
- Personal Liability Insurance of \$5,000,000
- Car Allowance of \$15,000 per year
- Financial Planning and Income Tax Preparation Benefit—covers 100% of combined charges up to a maximum of \$9,000 per year
- First Class Air Travel
- Payment for Two Airline Clubs
- Reimbursement for Two Private Club Membership up to \$5,000 per year

These perquisites are periodically modified by the Company.

Exhibit B: Gross-Up Provisions

Equalization Payment. If upon or following a Change in Control, the tax imposed by Section 4999 of the Code or any similar or successor tax (the “Excise Tax”) applies, solely because of the Change in Control, to any payments, benefits and/or amounts received by the Executive as Severance Benefits or otherwise, including without limitation, any fees, costs and expenses paid under this Agreement and/or any amounts received or deemed received, within the meaning of any provision of the Code, by the Executive as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Executive under any of the Company’s incentive plans, including without limitation, the 1993 Long Term Incentive Stock Plan, the 1987 Long Term Incentive Plan and the 1981 Long-Term Incentive Plan, the Company shall pay to the Executive in cash an additional amount or amounts (the “Gross-Up Payment(s)”) such that the net amount retained by the Executive after the deduction of any Excise Tax on such payments, benefits and/or amounts so received and any Federal, state and local income tax and Excise Tax upon the Gross-Up Payment(s) provided for by this Section shall be equal to such payments, benefits and/or amounts so received had they not been subject to the Excise Tax. Such payment(s) provided for by this Section shall be equal to such payments, benefits and/or amounts so received had they not been subject to the Excise Tax. Such payment(s) shall be made by the Company to the Executive as soon as practicable following the receipt or deemed receipt of any such payments, benefits and/or amounts so received, and may be satisfied by the Company making a payment or payments on Executive’s account in lieu of withholding for tax purposes but in all events shall be made within thirty (30) days of the receipt or deemed receipt by the Executive of any such payment, benefit and/or amount.

Tax Computation. For purposes of determining whether any payments, benefits and/or amounts, including amounts paid as Severance Benefits, will be subject to Excise Tax, and the amount of any such Excise Tax:

- (a) Any other payments, benefits and/or amounts received or to be received by the Executive in connection with or contingent upon a Change in Control of the Company or the Executive’s termination of employment, (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, or with any Person whose actions result in a Change in Control of the Company or any person affiliated with the Company or such Persons) shall be combined to determine whether the Executive has received any “parachute payment” within the meaning of Section 280G(b)(2) of the code, and if so, the amount of any “excess parachute payments” within the meaning of Section 280(G)(b)(1) that shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company’s independent auditors and acceptable to the Executive, such other

payments, benefits and/or amounts (in whole or in part) do not constitute parachute payments, or such excess parachute payments represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

- (b) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company’s independent auditors in accordance with the principles of Section 280G(d)(3) and (4) of the Code.

For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay Federal income taxes at the highest marginal rate of Federal income taxation in the calendar year in which the Gross-Up Payment is to be made. Such highest marginal rate shall take into account the loss of itemized deduction by the Executive and shall also include the Executive’s share of the hospital insurance portion of FICA and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive’s residence on the Effective Date of termination, net of the maximum reduction in Federal income taxes that could be obtained from the deduction of such state and local taxes.

Subsequent Recalculation. In the event the Internal Revenue Service adjusts the computation of the Company under this Section herein, so that the Executive did not receive the greatest net benefit, the Company shall reimburse the Executive as provided herein for the full amount necessary to place the Executive in the same after-tax position as he would have been in had no Excise Tax applied.

EXHIBIT C

RELEASE AGREEMENT

1. **PARTIES:** The parties to this Release Agreement (referred to hereafter as “Agreement”) are **DR. RONALD D. SUGAR** (referred to hereafter as “Executive”) and **NORTHROP GRUMMAN CORPORATION** (referred to hereafter as “Northrop Grumman” or the “Company”).
2. **RECITALS:** This Agreement is made with reference to the following facts:

2.1 Executive and Northrop Grumman are parties to an Employment Agreement, one of the terms of which provides Executive, under certain conditions, with Special Severance Benefits in exchange for a release.

2.2 This Agreement is the release Executive is required to sign in order to receive those Special Severance Benefits.

3. **CONSIDERATION:** In exchange for the Executive's agreement to abide by all of the terms of this Agreement, Northrop Grumman will provide Executive with the Special Severance Benefits set forth in Section 15 of the Employment Agreement.

4. **COMPLETE RELEASE:** In consideration of the promises contained herein, and for other good and valuable consideration the receipt of which is hereby acknowledged, Executive does hereby acknowledge full and complete satisfaction of and does hereby agree to release, absolve and discharge Releasees (as defined below) from all claims, causes of action, demands, damages or costs he may have against Releasees on behalf of himself or others arising prior to the date he signs this Agreement. "Releasees" shall mean the Company, its subsidiaries, affiliated and related companies, past, present and future, and each of them, as well as its and their employees, officers, directors, and agents (in their capacities as employees, officers, directors and agents), past and present, and each of them in such capacities.

4.1 This waiver and release includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under the Age Discrimination in Employment Act, which prohibits discrimination in employment based on age, and retaliation; Title VII of the Civil Rights Act of 1964, which prohibits discrimination in employment based on race, color, religion, sex or national origin, and retaliation; the Americans with Disabilities Act, which prohibits discrimination based on disability and retaliation; the California Fair Employment and Housing Act, which prohibits discrimination in employment based on race, color, religion, sex, national origin, ancestry, physical disability, mental disability, medical condition, marital status or age, and retaliation; or any other federal, state or local laws or regulations prohibiting employment discrimination or retaliation

whether such claim be based upon an action filed by Executive or by any governmental agency.

4.2 This waiver and release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under Executive's Employment Agreement, or in relation to the Company's employee handbook and personnel policies, or any oral or written representations or statements made by officers, directors, lawyers, employees or agents of the Company, past and present, and each of them, or under any state or federal law regulating wage, hours, compensation or employment, or any claim for retaliation, wrongful discharge, breach of contract, breach of the implied covenant of good faith and fair dealing, intentional or negligent infliction of emotional distress, intentional or negligent misrepresentation, or defamation.

4.3 This waiver and release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under or in relation to any severance plan, program, or arrangement.

4.4 This waiver and release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under the federal False Claims Act.

4.5 This release covers both claims that Executive knows about and those he may not know about. Executive hereby specifically waives and relinquishes all rights and benefits provided by Section 1542 of the Civil Code of the State of California, and does so understanding and acknowledging the significance of this specific waiver of Section 1542. Section 1542 of the Civil Code of the State of California states as follows:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

4.6 Notwithstanding the provisions of Section 1542 and for the purpose of implementing a full and complete release, Executive expressly acknowledges that this Agreement is intended to include all claims which he does not know or suspect to exist in his favor at the time of his signature on the Agreement, and that this Agreement will extinguish any such claims

4.7 Notwithstanding anything to the contrary herein, this Agreement does not waive or release: (i) any rights or claims which Executive may have under the Age Discrimination in Employment Act or other laws which arise after the date he signs this Agreement, (ii) any rights or claims Executive may have under his Employment Agreement with the Company which survive

termination of employment; (iii) any rights Executive may have for indemnification from the Company; (iv) any rights which Executive may have under the Company's Directors and Officers liability insurance policy; (v) any rights Executive may have under stock grants provided to him by the Company; (vi) any rights Executive may have as a shareholder of Northrop Grumman; and (vii) any rights Executive may have to vested benefits under any Company employee benefit plan.

5. **ARBITRATION:** Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration, conducted before a single arbitrator in the State of California (in the major city nearest Executive's residence) in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association then in effect. The decision of the arbitrator will be final and binding upon the parties hereto. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The arbitrator may, but need not, award the prevailing party in any dispute (as determined by the arbitrator) its or his legal fees and expenses.

6. **PERIOD FOR REVIEW AND CONSIDERATION OF AGREEMENT; ADVICE OF COUNSEL:** Executive agrees and understands that he has been given a period of twenty-one (21) calendar days from his receipt of this Agreement to review and consider this Agreement before signing it. Executive further understands that he may use as much of this review period as he wishes prior to signing; he can

sign this Agreement at any time prior to the expiration of the twenty-one calendar day period. At the end of this period, this offer of Special Severance Benefits will be deemed automatically withdrawn if not earlier signed by Executive and delivered to the Company. Executive is advised and encouraged to consult with his own legal counsel prior to signing this Agreement.

7. **RIGHT TO REVOKE AGREEMENT:** Executive may revoke this Agreement within seven (7) calendar days of signing it. Revocation can be made by delivering a written notice of revocation to Chief Human Resources Officer, Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, CA 90067. For this revocation to be effective, written notice must be received by the Chief Human Resources Officer no later than 5:00 p.m. PST on the seventh calendar day after Executive signs this Agreement. If Executive revokes this Agreement, it shall not be effective or enforceable, and Executive will not receive the benefits described in Section 3 of this Agreement.

8. **NON-ADMISSION OF LIABILITY:** Nothing contained herein shall be construed as an admission by either Executive or by Northrop Grumman of liability of any kind.

9. **SEVERABILITY:** The provisions of this Agreement are severable, and if any part of it is found to be illegal or invalid and thereby unenforceable, the validity of the remaining parts, terms or provisions shall not be affected and shall remain fully enforceable. The unenforceable part, term or provision shall be deemed not to be a part of this Agreement.

10. **SOLE AND ENTIRE AGREEMENT:** Except as otherwise expressly set forth herein, this Agreement sets forth the entire agreement between the parties hereto, and fully supersedes any and all discussions, prior agreements or understandings between the parties hereto pertaining to the subject matter of this Agreement.

11. **GOVERNING LAW:** This Agreement shall be interpreted and enforced in accordance with the laws of the State of California without regard to rules regarding conflicts of law.

EXECUTIVE ACKNOWLEDGES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS, CONFER WITH COUNSEL, AND TO CAREFULLY CONSIDER ALL OF THE PROVISIONS OF THIS AGREEMENT BEFORE SIGNING IT. HE FURTHER AGREES THAT HE HAS READ THIS AGREEMENT, UNDERSTANDS IT, AND IS VOLUNTARILY ENTERING INTO IT.

PLEASE READ THIS AGREEMENT CAREFULLY. IT CONTAINS A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

EXECUTIVE

DATED: _____

BY: _____

NORTHROP GRUMMAN CORPORATION

DATED: _____

BY: _____

TITLE: _____

Notice of Grant of Restricted Performance Stock Rights and Rights Agreement

Northrop Grumman Corporation
 1840 Century Park East
 Los Angeles, CA 90067

[Name and address of Grantee]

Pursuant to the terms and conditions of the company's 54 2001 Performance Plan (the "Plan"), you have been granted Restricted Performance Stock Rights (the "Rights") in the amount of _____ shares of stock as outlined below.

Granted To: [Name of Grantee]
 [Social Security Number]
 Grant Date:
 Target RPSR's Granted:
 Performance Period:
 Vesting Schedule:

This page and the attached Terms and Conditions together constitute the Rights Agreement. By your signature and the Company's signature below, you and the Company agree that these Rights are granted under and governed by the terms of the Company's 2001 Long-Term Incentive Stock Plan and the Rights Agreement.

NORTHROP GRUMMAN CORPORATION

By: _____ By: _____

Signature: _____ Date: _____
 [Name of Grantee]

NORTHROP GRUMMAN CORPORATION
2001 LONG-TERM INCENTIVE STOCK PLAN
RESTRICTED PERFORMANCE STOCK RIGHTS
TERMS AND CONDITIONS

- The performance period with respect to this award shall commence January 1, 2002 and shall end December 31, 2004 (the "Performance Period"). The RPSRs subject to this grant shall be paid at the conclusion of the Performance Period, provided that the Grantee has remained in the continuous employment of the Company or one of its subsidiaries through the last day of the Performance Period, and subject to the terms and performance conditions stated herein, in the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as amended from time to time (the "Plan"), and any rules or guides to administration adopted by the Company's Compensation and Management Development Committee or any successor committee appointed by the Company's Board of Directors to administer the Plan (the "Committee") in effect from time to time, including, without limitation, the Plan's 2001 Guide to Administration (the "Guide"). Without limiting the generality of the foregoing, the RPSRs are subject to the earnout provisions set forth in the Guide. In accordance with the Guide, Dividend Equivalents (as defined in the Guide) will be paid on and at the same time as any RPSRs that are paid. RPSRs that become payable will be paid by delivery of an equivalent number of shares of Company Common Stock or, in the discretion of the Committee, in cash. Dividend Equivalents that become payable will be paid in cash or, in the discretion of the Committee, shares of Company Common Stock.
- This grant of RPSRs and related Dividend Equivalents is subject to termination in accordance with the provisions of the Guide if the Grantee ceases to be an employee of the Company and its subsidiaries. The number of RPSRs (and related Dividend Equivalents) subject hereto that would otherwise be paid if the Grantee had remained employed by the Company or a subsidiary through the entire Performance Period will be pro-rated in accordance with the Guide if the Grantee Retires (as defined below), dies, or becomes Disabled (as defined below) while employed by the Company or a subsidiary and after completing at least twelve consecutive calendar months of employment with the Company or a subsidiary during the three-year Performance Period. For purposes of this instrument, "Disabled" means disabled pursuant to the provisions of the Company's (or one of its subsidiary's) Long Term Disability Plan applicable to the Grantee; or, if the Grantee is not covered by such a Long Term Disability Plan, the incapacity of the Grantee, due to injury, illness, disease, or bodily or mental infirmity, to engage in the performance of substantially all of the usual duties of employment with the Company or the subsidiary which employs the Grantee, such disability to be determined by the Committee upon receipt and in reliance on competent medical advice from one or more individuals, selected by the Committee, who are qualified to give such professional medical advice. For purposes of this instrument, "Retire" means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause).
- The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition to any payment of the RPSRs and Dividend Equivalents, that the Grantee pay any sums required to be withheld by federal, state or local tax law with respect to such payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate.
- Other than by will or the laws of descent and distribution, the RPSRs and Dividend Equivalents subject to this instrument may not be sold, assigned, transferred, pledged or otherwise disposed of or encumbered, either voluntarily or involuntarily.

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5. Payments and the issuance of shares with respect hereto are subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder with respect to any shares which may be issued in respect of the RPSRs and/or Dividend Equivalents until the date appearing on the certificate(s) for such shares, if such shares become issuable.
 6. The RPSRs, Dividend Equivalents, and the shares subject to this grant are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6 of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment. Except as set forth below in this paragraph 6, the Grantee's rights with respect to the RPSRs and Dividend Equivalents in the event of a Change in Control (as defined in the Plan) shall be determined under the Guide. Subject to the exceptions set forth in Section X of the Guide, if, within the Protected Period (as defined in the Guide) corresponding to a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause (as defined in the Section X of the Guide) or by the Grantee for Good Reason (as defined in Section X of the Guide) and the Grantee was not otherwise entitled to a pro-rated payment with respect to the RPSRs as referenced in paragraph 2 hereof, then upon the Change in Control the Grantee will be eligible for a prorated portion of the RPSRs (and Dividend Equivalents with respect thereto) in accordance with Section VI.K.2 of the Guide.
 7. Vesting in the RPSRs and Dividend Equivalents subject to this instrument requires continued employment through the last day of the Performance Period. Unless otherwise expressly provided in paragraph 2 or paragraph 6 hereof, employment for only a portion of the Performance Period, even if substantial, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Subject to the leave of absence provisions of the Guide, the term "employment" as used herein means active employment by the Company or one of its subsidiaries and salary continuation without active employment will not, in and of itself, constitute "employment" for purposes hereof (in the case of salary continuation without active employment, the participant's cessation of active employee status shall be deemed to be a termination of "employment" for purposes hereof). Nothing contained in this instrument, the Plan, or the Guide constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.
 8. The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of this instrument, the Plan, the Guide, and any other applicable rules or guides to administration. Any action taken by, or inaction of, the Committee relating to or pursuant to this instrument, the Plan, the Guide, or any other applicable rules or guides to administration shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.
 9. This grant of RPSRs and related Dividend Equivalents was made under the Plan. The RPSRs and related Dividend Equivalents are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan, the Guide, and any other rules or regulations adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of this instrument, the Plan or the Guide unless such amendment is in writing and signed by a duly authorized officer of the Company.

**Notice of Grant of Stock Options
and Option Agreement**

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, CA 90067

[Name and address of Grantee]

Pursuant to the terms and conditions of the company's 52 2001 NQ Stock Option Plan (the "Plan"), you have been granted a Non-Qualified Stock Option to purchase _____ shares (the "Option") of stock as outlined below.

Granted To: [Name of Grantee]
Grant Date:
Options Granted:
Option Price per Share:
Expiration Date: \$

Vesting Schedule:

This page and the attached Terms and Conditions together constitute the Option Agreement. By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms of the Company's 2001 Long-Term Incentive Stock Plan and the Option Agreement.

NORTHROP GRUMMAN CORPORATION

By: _____ By: _____
Signature: _____ Date: _____
[Name of Grantee]

NORTHROP GRUMMAN CORPORATION
2001 LONG-TERM INCENTIVE STOCK PLAN
NON-QUALIFIED STOCK OPTION
TERMS AND CONDITIONS

1. The Grantee is entitled at the time or times designated in paragraph 4 hereof but before the close of business on the day before the tenth anniversary of the Date of Grant (the "Expiration Date") to purchase and receive from the Company the maximum number of shares of Common Stock of the Company set forth above upon exercise of this Option, all subject, however, to the terms and conditions stated herein and in the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as amended from time to time (the "Plan"), and any rules or guides to administration adopted by the Company's Compensation and Management Development Committee or any successor committee appointed by the Company's Board of Directors to administer the Plan (the "Committee") in effect from time to time, including, without limitation, the Plan's 2001 Guide to Administration (the "Guide").
2. This Option is non-transferable and non-assignable and may be exercised solely by the Grantee or a duly appointed guardian or personal representative, except as provided in paragraph 3 hereof in the event of the death of the Grantee. This Option shall not be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.
3. This Option shall terminate if and when the Grantee ceases to be an employee of the Company or one of its subsidiaries, except as follows:
 - (i) If the Grantee dies or is Disabled (as defined below) while employed by the Company or a subsidiary, the next succeeding vesting installment of this Option shall vest and all installments under this Option which have vested may be exercised by the Grantee (or, in the case of the Grantee's death, by the Grantee's successor) until the fifth anniversary of the Grantee's death or Disability, whichever first occurs, but in no event after the Expiration Date.
 - (ii) Notwithstanding any retirement provisions set forth in the Guide to the contrary, if the Grantee Retires (as defined below) while employed by the Company or a subsidiary, (x) the next succeeding vesting installment of this Option shall vest as of the Grantee's Retirement date, (y) any and all succeeding installments of this Option will vest as of the date(s) that they would have otherwise vested had the Grantee remained employed by the Company or one of its subsidiaries, and (z) all installments under this Option which have vested as of the Grantee's Retirement date or which vest as described in the foregoing clause (y) may be exercised by the Grantee (or, in the case of the Grantee's death, by the Grantee's successor) until the fifth anniversary of the Grantee's Retirement, but in no event after the Expiration Date.
 - (iii) Subject to the following sentence, if the employment of the Grantee with the Company or a subsidiary is terminated for any reason other than the Grantee's death, Retirement or Disability, this Option may be exercised (as to not more than the number of shares as to which the Grantee might have exercised this Option on the date on which his or her employment terminated) only within 90 days from the date of such termination of employment, but in no event after the Expiration Date; provided, however, that if the Grantee is dismissed by the Company or a subsidiary for cause, of which the Committee shall be the sole judge, this Option shall expire forthwith. If the Grantee dies within 90 days after a termination of employment described in the preceding sentence (other than a termination by the Company or a subsidiary for cause), this Option may be exercised by the Grantee's

successor for one year from the date of the Grantee's death, but in no event after the Expiration Date and as to not more than the number of shares as to which the Grantee might have exercised this Option on the date on which his or her employment by the Company or a subsidiary terminated.

(iv) For purposes of this instrument, "Disabled" means disabled pursuant to the provisions of the Company's (or one of its subsidiary's) Long Term Disability Plan applicable to the Grantee; or, if the Grantee is not covered by such a Long Term Disability Plan, the incapacity of the Grantee, due to injury, illness, disease, or bodily or mental infirmity, to engage in the performance of substantially all of the usual duties of employment with the Company or the subsidiary which employs the Grantee, such disability to be determined by the Committee upon receipt and in reliance on competent medical advice from one or more individuals, selected by the Committee, who are qualified to give such professional medical advice. For purposes of this instrument, "Retire" means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause).

4. Subject to the earlier vesting and/or termination of this Option pursuant to paragraph 3 or paragraph 8 hereof, this Option shall become exercisable as to 25 percent of the total number of shares set forth above on the first anniversary of the Date of Grant, and on each succeeding anniversary of the Date of Grant this Option shall become exercisable as to an additional 25 percent of the total number of shares so that on the fourth anniversary of the Date of Grant this Option shall be exercisable in full. Subject to the earlier vesting and/or termination of this Option pursuant to paragraph 3 or paragraph 8 hereof, this Option may be exercised to the extent that it is exercisable in accordance with the foregoing at any time up to the Expiration Date.
 5. In order to exercise this Option, the Grantee or such other person as may be entitled to exercise the same shall (i) execute and deliver to the Corporate Secretary of the Company a written notice indicating the number of shares subject to this Option to be exercised, and/or (ii) complete such other exercise procedure as may be prescribed by the Corporate Secretary of the Company. The date of exercise of this Option shall be the day such notice is received by the Corporate Secretary of the Company or the day such exercise procedures are satisfied, as applicable; provided that in no event shall this Option be considered to have been exercised unless the per share exercise price of this Option is paid in full (or provided for in accordance with the following sentence) for each of the shares to be acquired on such exercise and all required tax withholding obligations with respect to such exercise have been satisfied or provided for in accordance with paragraph 8 hereof. The purchase price shall be paid in cash or, in the sole discretion of the Committee and on such terms and conditions as the Corporate Secretary of the Company may prescribe, either in whole or in part in Common Stock of the Company (either actually or by attestation and valued at their fair market value on the date of exercise of this Option as defined in paragraph 6 hereof) or pursuant to a cashless exercise arranged through a broker or other third party.
 6. The fair market value of the shares of Common Stock of the Company on the date of exercise of this Option shall be the closing price in the composite tape of the Common Stock on the New York Stock Exchange on such date, or, if there was no trading on such date, the closing price on the next preceding date on which there was trading in such shares; provided, however, the Committee in determining such fair market value may utilize such other exchange, market, or listing as it deems appropriate. For purposes of a cashless exercise, the fair market value of the shares shall be the price at which the shares in payment of the exercise price are sold.
 7. The issue and sale of shares of stock upon any exercise of this Option is further subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchanges upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder with respect to shares subject to or purchased under this Option until the date appearing on the certificate(s) issued upon the exercise of this Option.
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8. The number and price of shares subject to this Option are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6 of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment. Except as set forth below in this paragraph 8, the Grantee's rights with respect to this Option in the event of a Change in Control (as defined in the Plan) shall be determined under Section 6 of the Plan. Notwithstanding the acceleration provisions of paragraph 3 hereof but subject to the limited exercise periods set forth therein, further subject to the Company's ability to terminate this Option in connection with a Change in Control in accordance with the provisions of Section 6 of the Plan, and further subject to the exceptions set forth in Section X of the Guide, this Option shall become fully exercisable as of the date of the Grantee's termination of employment if either within the Protected Period (as defined in the Guide) corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause (as defined in Section X of the Guide) or by the Grantee for Good Reason (as defined in Section X of the Guide).
 9. The vesting of this Option requires continued employment through each vesting date as a condition to the vesting of the corresponding installment of this Option. Unless otherwise expressly provided in paragraph 3 or paragraph 8 hereof, employment before or between the specified vesting dates, even if substantial, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Subject to the leave of absence provisions of the Guide, the term "employment" as used herein means active employment by the Company or one of its subsidiaries and salary continuation without active employment will not, in and of itself, constitute "employment" for purposes hereof (in the case of salary continuation without active employment, the participant's cessation of active employee status shall be deemed to be a termination of "employment" for purposes hereof). Nothing contained in this instrument, the Plan, or the Guide constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.
 10. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of issuing shares upon exercise of this Option, that the Grantee or other person exercising this Option pay any sums required to be withheld by federal, state or local tax law with respect to the exercise of this Option. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of any taxes as it deems appropriate.
 11. The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares upon exercise of this Option.
 12. The Company may, for all purposes, regard the Grantee as the holder of this Option until written notice of transfer pursuant to paragraph 3 hereof in connection with the Grantee's death has been given to and received by the Corporate Secretary of the Company.
 13. The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of this instrument, the Plan, the Guide, and any other applicable rules or guides to administration. Any action taken by, or inaction of, the Committee relating to or pursuant to this instrument, the Plan, the Guide, or any other applicable rules or guides to administration shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

14. This Option was granted under the Plan. This Option is governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan, the Guide (except as expressly provided in paragraph 3 hereof), and any other rules or regulations adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of this instrument, the Plan or the Guide unless such amendment is in writing and signed by a duly authorized officer of the Company.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed by its Chief Financial Officer or Chief Human Resources and Administrative Officer and its Corporate Secretary effective as of the Date of Grant stated above.

NORTHROP GRUMMAN CORPORATION

By

By

**Notice of Grant of Restricted Performance Stock Rights
and Rights Agreement**

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, CA 90067

Kent Kresa
[Address]

Pursuant to the terms and conditions of the company's 54 2001 Performance Plan (the "Plan"), you have been granted Restricted Performance Stock Rights (the "Rights") in the amount of 45,000 shares of stock as outlined below.

Granted To:	Kent Kresa [Social Security Number]
Grant Date:	August 15, 2001
Target RPSR's Granted:	45,000
Performance Period:	January 1, 2002 – December 31, 2004
Vesting Schedule:	Special Vesting 45,000 on 12/31/2004

This page and the attached Terms and Conditions together constitute the Rights Agreement. By your signature and the Company's signature below, you and the Company agree that these Rights are granted under and governed by the terms of the Company's 2001 Long-Term Incentive Stock Plan and the Rights Agreement.

NORTHROP GRUMMAN CORPORATION

By: _____

By: _____

Signature: _____
Kent Kresa

Date: _____

NORTHROP GRUMMAN CORPORATION

2001 LONG-TERM INCENTIVE STOCK PLAN

RESTRICTED PERFORMANCE STOCK RIGHTS

TERMS AND CONDITIONS

This grant of Restricted Performance Stock Rights ("RPSRs") was granted on August 15, 2001 (the "Date of Grant") by Northrop Grumman Corporation (the "Company") to Kent Kresa (the "Grantee").

- The performance period with respect to this award shall commence January 1, 2002 and shall end December 31, 2004 (the "Performance Period"). The RPSRs subject to this grant shall be paid at the conclusion of the Performance Period, provided that the Grantee has remained in the continuous employment of the Company or one of its subsidiaries through the last day of the Performance Period, and subject to the terms and performance conditions stated herein, in the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as amended from time to time (the "Plan"), and any rules or guides to administration adopted by the Company's Compensation and Management Development Committee or any successor committee appointed by the Company's Board of Directors to administer the Plan (the "Committee") in effect from time to time, including, without limitation, the Plan's 2001 Guide to Administration (the "Guide"). Without limiting the generality of the foregoing, the RPSRs are subject to the earnout provisions set forth in the Guide. In accordance with the Guide, Dividend Equivalents (as defined in the Guide) will be paid on and at the same time as any RPSRs that are paid. RPSRs that become payable will be paid by delivery of an equivalent number of shares of Company Common Stock or, in the discretion of the Committee, in cash. Dividend Equivalents that become payable will be paid in cash or, in the discretion of the Committee, shares of Company Common Stock.
- Except as expressly provided below if the Grantee Retires while employed by the Company or a subsidiary, this grant of RPSRs and related Dividend Equivalents is subject to termination in accordance with the provisions of the Guide if the Grantee ceases to be an employee of the Company and its subsidiaries. The number of RPSRs (and related Dividend Equivalents) subject hereto that would otherwise be paid if the Grantee had remained employed by the Company or a subsidiary through the entire Performance Period will be pro-rated in accordance with the Guide if the Grantee dies or becomes Disabled (as defined below) while employed by the Company or a subsidiary and after completing at least twelve consecutive calendar months of employment with the Company or a subsidiary during the three-year Performance Period. Notwithstanding any retirement provisions set forth in the Guide to the contrary, if the Grantee Retires (as defined below) while employed by the Company or a subsidiary, there will be no pro ration of the target number of RPSRs subject to this grant (that is, 100% of the target number of RPSRs initially subject to this grant shall remain subject to this grant) and payment of the RPSRs subject to this grant (and related Dividend Equivalents) will be made at the same time and on the same performance basis as if the Grantee had not Retired. For purposes of this instrument, "Disabled" means disabled pursuant to the provisions of the Company's (or one of its subsidiary's) Long Term Disability Plan applicable to the

Grantee; or, if the Grantee is not covered by such a Long Term Disability Plan, the incapacity of the Grantee, due to injury, illness, disease, or bodily or mental infirmity, to engage in the performance of substantially all of the usual duties of employment with the Company or the subsidiary which employs the Grantee, such disability to be determined by the Committee upon receipt and in reliance on competent medical advice from one or more individuals, selected by the Committee, who are qualified to give such professional medical advice. For purposes of this instrument, "Retire" means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause).

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3. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition to any payment of the RPSRs and Dividend Equivalents, that the Grantee pay any sums required to be withheld by federal, state or local tax law with respect to such payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate.
 4. Other than by will or the laws of descent and distribution, the RPSRs and Dividend Equivalents subject to this instrument may not be sold, assigned, transferred, pledged or otherwise disposed of or encumbered, either voluntarily or involuntarily.
 5. Payments and the issuance of shares with respect hereto are subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder with respect to any shares which may be issued in respect of the RPSRs and/or Dividend Equivalents until the date appearing on the certificate(s) for such shares, if such shares become issuable.
 6. The RPSRs, Dividend Equivalents, and the shares subject to this grant are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6 of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment. Except as set forth below in this paragraph 6, the Grantee's rights with respect to the RPSRs and Dividend Equivalents in the event of a Change in Control (as defined in the Plan) shall be determined under the Guide. Subject to the exceptions set forth in Section X of the Guide, if, within the Protected Period (as defined in the Guide) corresponding to a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause (as defined in the Section X of the Guide) or by the Grantee for Good Reason (as defined in Section X of the Guide) and the Grantee was not otherwise entitled to a pro-rated payment with respect to the RPSRs as referenced in paragraph 2 hereof, then upon the Change in Control the Grantee will be eligible for a prorated portion of the RPSRs (and Dividend Equivalents with respect thereto) in accordance with Section VI.K.2 of the Guide.
 7. Vesting in the RPSRs and Dividend Equivalents subject to this instrument requires continued employment through the last day of the Performance Period. Unless otherwise expressly provided in paragraph 2 or paragraph 6 hereof, employment for only a portion of the Performance Period, even if substantial, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Subject to the leave of absence provisions of the Guide, the term "employment" as used herein means active employment by the Company or one of its subsidiaries and salary continuation without active employment will not, in and of itself, constitute "employment" for purposes hereof (in the case of salary continuation without active employment, the participant's cessation of active employee status shall be deemed to be a termination of "employment" for purposes hereof). Nothing contained in this instrument, the Plan, or the Guide constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.
 8. The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of this instrument, the Plan, the Guide, and any other applicable rules or guides to administration. Any action taken by, or inaction of, the Committee relating to or pursuant to this instrument, the Plan, the Guide, or any other applicable rules or guides to administration shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.
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9. This grant of RPSRs and related Dividend Equivalents was made under the Plan. The RPSRs and related Dividend Equivalents are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan, the Guide (except as expressly provided in paragraph 2 hereof), and any other rules or regulations adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of this instrument, the Plan or the Guide unless such amendment is in writing and signed by a duly authorized officer of the Company.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed by its Chief Financial Officer or Chief Human Resources and Administrative Officer and its Corporate Secretary effective as of the Date of Grant stated above.

NORTHROP GRUMMAN CORPORATION

By _____

By _____

**Notice of Grant of Stock Options
and Option Agreement**

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, CA 90067

Kent Kresa
[Address]

Pursuant to the terms and conditions of the company's 52 2001 NQ Stock Option Plan (the "Plan"), you have been granted a Non-Qualified Stock Option to purchase 100,000 shares (the "Option") of stock as outlined below.

Granted To: Kent Kresa

Grant Date: August 15, 2001

Options Granted: 100,000

Option Price per Share: \$78.5500

Expiration Date: August 15, 2011

Vesting Schedule: 25% per year for 4 years
25,000 on 08/15/2002
25,000 on 08/15/2003
25,000 on 08/15/2004
25,000 on 08/15/2005

This page and the attached Terms and Conditions together constitute the Option Agreement. By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms of the Company's 2001 Long-Term Incentive Stock Plan and the Option Agreement.

NORTHROP GRUMMAN CORPORATION

By: _____

By: _____

Signature: _____
Kent Kresa

Date: _____

2001 NORTHROP GRUMMAN LONG-TERM INCENTIVE STOCK PLAN

NON-QUALIFIED STOCK OPTION

TERMS AND CONDITIONS - KK

1. The Grantee is entitled at the time or times designated in paragraph 4 hereof but before the close of business on the day before the tenth anniversary of the Date of Grant (the "Expiration Date") to purchase and receive from the Company the maximum number of shares of Common Stock of the Company set forth above upon exercise of this Option, all subject, however, to the terms and conditions stated herein and in the Northrop Grumman 2001 Long-Term Incentive Stock Plan, as amended from time to time (the "Plan"), and any rules or guides to administration adopted by the Company's Compensation and Management Development Committee or any successor committee appointed by the Company's Board of Directors to administer the Plan (the "Committee") in effect from time to time, including, without limitation, the Plan's 2001 Guide to Administration (the "Guide").
2. This Option is non-transferable and non-assignable and may be exercised solely by the Grantee or a duly appointed guardian or personal representative, except as provided in paragraph 3 hereof in the event of the death of the Grantee. This Option shall not be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.
3. This Option shall terminate if and when the Grantee ceases to be an employee of the Company or one of its subsidiaries, except as follows:
 - (i) If the Grantee dies or is Disabled (as defined below) while employed by the Company or a subsidiary, the next succeeding vesting installment of this Option shall vest and all installments under this Option which have vested may be exercised by the Grantee (or, in the case of the Grantee's death, by the Grantee's successor) until the fifth anniversary of the Grantee's death or Disability, whichever first occurs, but in no event after the Expiration Date.

(ii) Notwithstanding any retirement provisions set forth in the Guide to the contrary, if the Grantee Retires (as defined below) while employed by the Company or a subsidiary, (x) the next succeeding vesting installment of this Option shall vest as of the Grantee's Retirement date, (y) any and all succeeding installments of this Option will vest as of the date(s) that they would have otherwise vested had the Grantee remained employed by the Company or one of its subsidiaries, and (z) all installments under this Option which

have vested as of the Grantee's Retirement date or which vest as described in the foregoing clause (y) may be exercised by the Grantee (or, in the case of the Grantee's death, by the Grantee's successor) until the fifth anniversary of the Grantee's Retirement, but in no event after the Expiration Date.

(iii) Subject to the following sentence, if the employment of the Grantee with the Company or a subsidiary is terminated for any reason other than the Grantee's death, Retirement or Disability, this Option may be exercised (as to not more than the number of shares as to which the Grantee might have exercised this Option on the date on which his or her employment terminated) only within 90 days from the date of such termination of employment, but in no event after the Expiration Date; provided, however, that if the Grantee is dismissed by the Company or a subsidiary for cause, of which the Committee shall be the sole judge, this Option shall expire forthwith. If the Grantee dies within 90 days after a termination of employment described in the preceding sentence (other than a termination by the Company or a subsidiary for cause), this Option may be exercised by the Grantee's successor for one year from the date of the Grantee's death, but in no event after the Expiration Date and as to not more than the number of shares as to which the Grantee might have exercised this Option on the date on which his or her employment by the Company or a subsidiary terminated.

(iv) For purposes of this instrument, "Disabled" means disabled pursuant to the provisions of the Company's (or one of its subsidiary's) Long Term Disability Plan applicable to the Grantee; or, if the Grantee is not covered by such a Long Term Disability Plan, the incapacity of the Grantee, due to injury, illness, disease, or bodily or mental infirmity, to engage in the performance of substantially all of the usual duties of employment with the Company or the subsidiary which employs the Grantee, such disability to be determined by the Committee upon receipt and in reliance on competent medical advice from one or more individuals, selected by the Committee, who are qualified to give such professional medical advice. For purposes of this instrument, "Retire" means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause).

4. Subject to the earlier vesting and/or termination of this Option pursuant to paragraph 3 or paragraph 8 hereof, this Option shall become exercisable as to 25 percent of the total number of shares set forth above on the first anniversary of the Date of Grant, and on each succeeding anniversary of the Date of Grant this Option shall become exercisable as to an additional 25 percent of the total number of shares so that on the fourth anniversary of the Date of Grant this Option shall be exercisable in full. Subject to the earlier vesting and/or termination of this Option pursuant to paragraph 3 or paragraph 8 hereof, this Option may be exercised to the extent that it is exercisable in accordance with the foregoing at any time up to the Expiration Date.
5. In order to exercise this Option, the Grantee or such other person as may be entitled to exercise the same shall (i) execute and deliver to the Corporate Secretary of the Company a written notice indicating the number of shares subject to this Option to be exercised, and/or (ii) complete such other exercise procedure as may be prescribed by the Corporate Secretary of the Company. The date of exercise of this Option shall be the day such notice is received by the Corporate Secretary of the Company or the day such exercise procedures are satisfied, as applicable; provided that in no event shall this Option be considered to have been exercised unless the per share exercise price of this Option is paid in full (or provided for in accordance with the following sentence) for each of the shares to be acquired on such exercise and all required tax withholding obligations with respect to such exercise have been satisfied or provided for in accordance with paragraph 8 hereof. The purchase price shall be paid in cash or, in the sole discretion of the Committee and on such terms and conditions as the Corporate Secretary of the Company may prescribe, either in whole or in part in Common Stock of the Company (either actually or by attestation and valued at their fair market value on the date of exercise of this Option as defined in paragraph 6 hereof) or pursuant to a cashless exercise arranged through a broker or other third party.
6. The fair market value of the shares of Common Stock of the Company on the date of exercise of this Option shall be the closing price in the composite tape of the Common Stock on the New York Stock Exchange on such date, or, if there was no trading on such date, the closing price on the next preceding date on which there was trading in such shares; provided, however, the Committee in determining such fair market value may utilize such other exchange, market, or listing as it deems appropriate. For purposes of a cashless exercise, the fair market value of the shares shall be the price at which the shares in payment of the exercise price are sold.
7. The issue and sale of shares of stock upon any exercise of this Option is further subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, the Commissioner of Corporations of the State of California, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchanges upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder with respect to shares subject to or purchased under this Option until the date appearing on the certificate(s) issued upon the exercise of this Option.

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8. The number and price of shares subject to this Option are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6 of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment. Except as set forth below in this paragraph 8, the Grantee's rights with respect to this Option in the event of a Change in Control (as defined in the Plan) shall be determined under Section 6 of the Plan. Notwithstanding the acceleration provisions of paragraph 3 hereof but subject to the limited exercise periods set forth therein, further subject to the Company's ability to terminate this Option in connection with a Change in Control in accordance with the provisions of Section 6 of the Plan, and further subject to the exceptions set forth in Section X of the Guide, this Option shall become fully exercisable as of the date of the Grantee's termination of employment if either within the Protected Period (as defined in the Guide) corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause (as defined in Section X of the Guide) or by the Grantee for Good Reason (as defined in Section X of the Guide).
 9. The vesting of this Option requires continued employment through each vesting date as a condition to the vesting of the corresponding installment of this Option. Unless otherwise expressly provided in paragraph 3 or paragraph 8 hereof, employment before or between the specified vesting dates, even if substantial, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Subject to the leave of absence provisions of the Guide, the term "employment" as used herein means active employment by the Company or one of its subsidiaries and salary continuation without active employment will not, in and of itself, constitute "employment" for purposes hereof (in the case of salary continuation without active employment, the participant's cessation of active employee status shall be deemed to be a termination of "employment" for purposes hereof). Nothing contained in this instrument, the Plan, or the Guide constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.
 10. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of issuing shares upon exercise of this Option, that the Grantee or other person exercising this Option pay any sums required to be withheld by federal, state or local tax law with respect to the exercise of this Option. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of any taxes as it deems appropriate.
 11. The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares upon exercise of this Option.
 12. The Company may, for all purposes, regard the Grantee as the holder of this Option until written notice of transfer pursuant to paragraph 3 hereof in connection with the Grantee's death has been given to and received by the Corporate Secretary of the Company.

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13. The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of this instrument, the Plan, the Guide, and any other applicable rules or guides to administration. Any action taken by, or inaction of, the Committee relating to or pursuant to this instrument, the Plan, the Guide, or any other applicable rules or guides to administration shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.
 14. This Option was granted under the Plan. This Option is governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan, the Guide (except as expressly provided in paragraph 3 hereof), and any other rules or regulations adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of this instrument, the Plan or the Guide unless such amendment is in writing and signed by a duly authorized officer of the Company.