NORTHROP GRUMMAN CORP /DE/
Form DEF 14A
April 04, 2003

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

**SCHEDULE 14A**

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

Filed by the Registrant [X]

Filed by a Party other than the Registrant [_]

Check the appropriate box:

| | |
|---|---|
| [_] | Preliminary Proxy Statement |
| [_] | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| [X] | Definitive Proxy Statement |
| [_] | Definitive Additional Materials |
| [_] | Soliciting Material Pursuant to (S) 240.14a-11(c) or (S) 240.14a-12 |

**Northrop Grumman Corporation**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Notes:

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

# NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

# AND PROXY STATEMENT

## NOTICE

The Annual Meeting of Stockholders of Northrop Grumman Corporation (the Company ) will be held on Wednesday, May 21, 2003 at 10:00 a.m. at The Beverly Hilton Hotel, 9876 Wilshire Boulevard, Beverly Hills, California 90210.

Stockholders at the close of business on March 25, 2003 are entitled to vote at the Annual Meeting. The following items are on the agenda:

(1) Election of four Class III directors, each for a three year term expiring in 2006;

(2) Proposal to ratify the appointment of Deloitte & Touche LLP as Northrop Grumman s independent auditors for fiscal year ending December 31, 2003;

(3) Proposal to approve amendments to the 2001 Long-Term Incentive Stock Plan of Northrop Grumman Corporation to increase the number of shares available for issuance;

(4) Proposal to amend Northrop Grumman s Certificate of Incorporation to decrease the vote requirement for amending certain charter provisions;

(5) Stockholder proposal regarding military activities in space;

(6) Stockholder proposal regarding the Shareholder Rights Plan;

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

By order of the Board of Directors,

John H. Mullan

*Corporate Vice President and Secretary*

1840 Century Park East

Los Angeles, California 90067

April 4, 2003

**IMPORTANT**

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

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

## PROXY STATEMENT

## GENERAL INFORMATION

This proxy statement is issued in connection with solicitation of the enclosed proxy by the Board of Directors of Northrop Grumman Corporation (the Company or Northrop Grumman ) for use at the Company s 2003 Annual Meeting of Stockholders (the Annual Meeting ). The Company s principal office is located at 1840 Century Park East, Los Angeles, California, 90067. This proxy material will be sent to stockholders beginning approximately April 4, 2003.

**OUTSTANDING SECURITIES**

On March 25, 2003 there were 182,890,600 shares of the Company s common stock, par value $1.00 per share ( Common Stock ), outstanding. Holders of record at the close of business on that date are entitled to vote at the Annual Meeting. Each share is entitled to one vote.

**VOTING AT THE MEETING OR BY PROXY**

Shares represented by a properly executed proxy in the accompanying form will be voted at the meeting in accordance with the stockholder s instructions. If no instructions are given, the shares will be voted according to the Board of Directors recommendations. Therefore, if no instructions are given, the persons named on the card will vote FOR Proposal One to elect the four director nominees listed under Election of Directors , FOR Proposal Two to ratify the appointment of Deloitte & Touche LLP as auditors of the Company for the year ending December 31, 2003, FOR Proposal Three to approve amendments to the 2001 Long-Term Incentive Stock Plan of Northrop Grumman Corporation to increase the number of shares available for issuance, FOR Proposal Four to amend the Company s Certificate of Incorporation to decrease the vote requirement for amending certain charter provisions, AGAINST Proposal Five, the stockholder proposal regarding military activities in space and AGAINST Proposal Six, the stockholder proposal regarding the Shareholder Rights Plan. If shares are held on your behalf under any of the Company Savings Plans, the proxy serves to provide confidential instructions to the plan Trustee or Voting Manager who then votes the shares. In addition, the instructions given by plan participants who return their proxies will serve as instructions to the Trustee or Voting Manager with respect to shares held on behalf of those participants from whom no proxies are received. Under these instructions, the applicable Trustee or Voting Manger will vote the respective plan shares in the same proportion as shares held under the plan for which voting directions have been received. Participants are treated as named fiduciaries under ERISA when directing the Trustee or Voting Manager on the voting of shares.

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

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

Brokers who hold shares of Common Stock for the accounts of their clients may vote such shares either as directed by their clients or in their own discretion if permitted by the stock exchange or other organization of which they are members. Members of the New York Stock Exchange are permitted to vote their clients proxies in their own discretion as to the election of directors if the clients have not furnished voting instructions within ten days of the meeting. Certain proposals other than the election of directors are non-discretionary and brokers who have received no instructions from their clients do not have discretion to vote on those items. When a broker votes a client s shares on some but not all of the proposals at a meeting, the missing votes are referred to as broker non-votes . There are no broker non-votes on the election of directors (Proposal One) and the ratification of auditors (Proposal Two) as these are discretionary items. Broker non-votes will have no effect on the proposals concerning approval of the 2001 Long-Term Incentive Stock Plan to increase the number of shares available for issuance (Proposal Three), provided that holders of over 50% of the outstanding shares of common stock cast votes on this proposal. A broker non-vote or an abstention will have the same effect as a vote against the proposed amendment to the Certificate of Incorporation to decrease the vote requirement for certain charter amendments (Proposal Four). Broker non-votes will have no effect on the two stockholder proposals (Proposals Five and Six).

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

## VOTING BY TELEPHONE OR THE INTERNET

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

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

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

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

## VOTING SECURITIES

On December 31, 2002, there were 182,602,390 shares of the Company s Common Stock outstanding. The following entities beneficially owned, to the Company s knowledge, more than five percent of the outstanding Common Stock:

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial | Percent of Class |
|---|---|---|

| | Ownership | |
|---|---|---|
| Wellington Management Company, LLP (a)<br>75 State Street, Boston, MA 02109 | 11,467,939 shares | 6.28% |
| The TRW Employee Stock Ownership and Savings Plan (b)<br>1900 Richmond Road, Cleveland, Ohio 44124 | 9,804,212 shares | 5.37% |
| Unitrin, Inc. (c)<br>One East Wacker Drive, Chicago, IL 60601 | 9,282,421 shares | 5.08% |

(a) This information was provided by Wellington Management Company, LLP ( Wellington ) in a Schedule 13G filed with the SEC on February 12, 2003. According to Wellington, as of December 31, 2002, Wellington had shared voting power over 7,922,358 shares and shared dispostive power over 11,467,939 shares.

(b) This information was provided by the TRW Employee Stock Ownership and Savings Plan (the TRW Plan ) in a Schedule 13G filed with the SEC on February 14, 2003. Putnam Fiduciary Trust Company, One Post Office Square, Boston, MA 02109, served as trustee of the TRW Plan during 2002. According to the TRW Plan, as of December 31, 2002, it has shared voting and dispositive power over 9,804,212 shares. This total includes 6,363,553 held for the account of employee participants in the Employee Stock Ownership portion of the TRW Plan.

(c) This information was provided by Unitrin, Inc. in a Schedule 13D/A filed with the SEC on January 6, 2003. According to Unitrin, as of December 30, 2002, Unitrin had sole voting and dispositive power over 2,761,829 shares and shared voting and dispositive power over 6,520,592 shares.

**Stock Ownership of Officers and Directors**

The following table shows beneficial ownership (as defined by applicable rules for proxy statement reporting purposes) of the Company s Common Stock as of March 25, 2003 (the Annual Meeting record date) by each director and nominee, by the Chief Executive Officer and the other four most highly compensated executive officers (collectively, the Named Executive Officers ) and all directors and executive officers as a group. Together these individuals own less than 1% of the outstanding Common Stock. Unless otherwise indicated, each individual has sole investment power and sole voting power with respect to the shares owned by such person. No family relationship exists between any of the directors or executive officers of the Company.

| | Shares of Common Stock Beneficially Owned | Options Exercisable Within 60 Days | Share Equivalents(1) |
|---|---|---|---|
| Directors | | | |
| John T. Chain, Jr. | 2,171 | 10,000 | 0 |
| Lewis W. Coleman | 2,696(2) | 3,000 | 507 |
| Vic Fazio | 1,333 | 4,500 | 0 |
| Phillip Frost | 20,961(3) | 9,500 | 682 |
| Charles R. Larson | 275 | 3,000 | 0 |
| Charles H. Noski | 226(4) | 0 | 0 |
| Jay H. Nussbaum | 140 | 1,500 | 201 |
| Philip A. Odeen | 4,286(5) | 53,570 | 1,404 |
| Aulana L. Peters | 5,167 | 10,000 | 1,765 |
| John Brooks Slaughter | 1,171 | 10,000 | 0 |
| Named Executive Officers | | | |
| Kent Kresa (6) | 483,851(7) | 291,229 | 5,499 |
| Ronald D. Sugar (8) | 12,504(9) | 12,500 | 0 |
| Richard B. Waugh, Jr. | 43,170(10) | 85,416 | 3,589 |
| Herbert W. Anderson | 14,606 | 65,750 | 1,490 |
| Robert P. Iorizzo | 6,006 | 11,875 | 0 |
| Directors and Executive Officers as a Group (28 persons) | 698,936 | 846,903 | 29,364 |

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

(2) These shares are held in the Coleman Family Trust of which Mr. Coleman and his spouse are trustees.

(3) These shares are held in the Frost Gamma Investments Trust of which Dr. Frost is trustee.

(4) These shares are held in the Charles H. Noski and Lisa J. Noski Revocable Trust of which Mr. Noski and his spouse are trustees.

(5) 2,143 shares are held in the Odeen Charitable Retirement Unitary Trust of which Mr. Odeen is trustee.

(6) Mr. Kresa retired as Chief Executive Officer effective April 1, 2003 and now serves as Chairman of the Board.

(7) 452,508 shares are held in the Kresa Family Trust of which Mr. Kresa is trustee.

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

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

(10) 30,702 shares are held in the Waugh Family Trust of which Mr. Waugh and his spouse are trustees.

## PROPOSAL ONE: ELECTION OF DIRECTORS

The Company s Certificate of Incorporation provides for a classified Board of Directors. Four directors in Class III will be elected at the 2003 Annual Meeting to hold office for three years until the 2006 Annual Meeting of Stockholders or until their successors have been elected and qualified. Unless instructed otherwise, the persons named in the accompanying proxy will vote the shares represented by such proxy for the election of the four Class III Director Nominees listed in the table below. Each of the four Class III Director Nominees has consented to serve, and the Board does not know of any reason why any of them would be unable to serve. If a nominee becomes unavailable or unable to serve before the Annual Meeting (for example, due to serious illness), the Board can either reduce its size or designate a substitute nominee. If any nominee becomes unavailable for election to the Board of Directors, an event which is not anticipated, the persons named as proxies have full discretion and authority to vote or refrain from voting for any other nominee in accordance with their judgment.

The following information, furnished with respect to each of the four nominees for election as a Class III director, and each of the four Class I and four Class II directors whose terms continue after the Annual Meeting, is obtained from the Company s records or from information furnished directly by the individual to the Company. All the nominees are presently serving on the Board of Directors.

### NOMINEES FOR DIRECTOR — CLASS III

| | |
|---|---|
| **JOHN T. CHAIN, JR.**, 68. | *General, United States Air Force (Ret.) and Chairman of the Board, Thomas Group, a management consulting company.* |

*Director since 1991*

General Chain has been Chairman of Thomas Group, Inc. since May 1998 and has been a member of the Board of Directors of Thomas Group since May 1995. He has also served as the President of Quarterdeck Equity Partners, Inc. from December 1996 to December 2002. He served as Special Assistant to the Chairman of Burlington Northern Sante Fe Corporation from November 1995 to March 1996, and as an Executive Vice President of Burlington Northern from 1991 to 1995. During his military career, General Chain s commands included military assistant to the Secretary of the Air Force, Director of Politico-Military Affairs, Department of State and Chief of Staff of Supreme Headquarters Allied Powers Europe. After serving as Commander in Chief, Strategic Air Command, he retired from the Air Force in February 1991. General Chain serves as a director of R.J. Reynolds, Inc., Kemper Insurance Company and ConAgra Foods, Inc.

| | |
|---|---|
| **VIC FAZIO**, 60. | *Senior Partner, Clark & Weinstock, a consulting firm.* |

*Director since 2000*

Vic Fazio became a senior partner at Clark & Weinstock, a strategic communications consulting firm in 1999, after serving as a Member of Congress for 20 years representing California s third congressional district. During that time he served as a member of the Armed Services, Budget and Ethics Committees and was a member of the House Appropriations Committee where he served as Subcommittee Chair or ranking member for 18 years. Mr. Fazio was a member of the elected Democratic Leadership in the House from 1991-1998 including four years as Chair of the Democratic Caucus, the third ranking position in the party. From 1975 to 1978, Mr. Fazio served in the California Assembly and was a member of the staff of the California Assembly Speaker from 1971 to 1975. He is a member of numerous boards including The Electricity

Innovation Institute, The California Institute, Coro National Board of Governors, the U.S. Capitol Historical Society the New Democrat Network, the Campaign Finance Institute, the Faith & Politics Institute, the Bryce Harlow Foundation and the Board of Visitors, The University of California at Davis.

**CHARLES R. LARSON**, 66. *Admiral, United States Navy (Ret.).*

*Director since 2002*

Adm. Larson is currently a consultant on defense, foreign policy and education issues to government and industry. He served as commander in the Pacific from 1991 to 1994, when he was responsible for 350,000 personnel and the readiness of all U.S. forces in the theater. He was the first Naval officer selected to be a White House Fellow and Naval aide to a president, and previously was superintendent of the U.S. Naval Academy, first from 1983 to 1986, and again from 1994 to 1998. His decorations include the Defense Distinguished Service Medal, seven Navy Distinguished Service Medals, three Legions of Merit, Bronze Star Medal, Navy Commendation and the Navy Achievement Medal. He is vice chairman of the board of regents of the University System of Maryland and is chairman of the board of directors of the U.S. Naval Academy Foundation. He serves on the board of directors of Edge Technologies, Inc., and the Atlantic Council.

**RONALD D. SUGAR**, 54. *Chief Executive Officer and President*

*Director since 2001*

Dr. Ronald D. Sugar was elected Chief Executive Officer effective April 1, 2003 after having served as President and Chief Operating Officer of Northrop Grumman since September 19, 2001. He was previously elected President and Chief Executive Officer of Litton Industries, Inc. when it became a subsidiary of Northrop Grumman on April 3, 2001, and was also elected Corporate Vice President and a member of the Board of Directors of Northrop Grumman at that time. He joined Litton Industries as President and Chief Operating Officer in June 2000 and was elected to the Board of Directors of Litton Industries in September 2000. Dr. Sugar served as President and Chief Operating Officer of TRW Aerospace & Information Systems and as a Member of the Chief Executive Office of TRW, Inc. from October 1998 to June 2000. He joined TRW in 1981 and served as Executive Vice President and Chief Financial Officer from 1994 to 1996 and Executive Vice President and General Manager of the TRW Automotive Electronics Group from 1996 to 1998. He served as a member of the President s National Security Telecommunications Advisory Committee and the Board of Governors of the Aerospace Industries Association. Dr. Sugar is currently a Trustee of the National Defense Industrial Association, the Los Angeles Philharmonic Association, the Cleveland Institute of Music and is a National Trustee of the Boys and Girls Club of America.

**Vote Required**

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

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE FOUR NOMINEES FOR DIRECTOR LISTED ABOVE.**

**CONTINUING DIRECTORS — CLASS I**

**KENT KRESA**, 65. *Chairman of the Board and Retired Chief Executive Officer.*

*Director since 1987*

Kent Kresa served as Chief Executive Officer of Northrop Grumman from January 1990 until his retirement April 1, 2003 and has been Chairman of the Board since September 1990. Mr. Kresa joined Northrop Grumman in 1975 as vice president and manager of the Company s Research and Technology Center and from 1976-1982 he served as corporate vice president and general manager of the Ventura Division. In 1982 he was appointed group vice president of the Company s Aircraft Group and in 1986 was named senior vice president-Technology Development and Planning. Mr. Kresa was elected President of the Company in 1987, and served in that position until September 19, 2001. Before joining the Company, Mr. Kresa was associated with the Defense Advanced

Research Projects Agency and the Lincoln Laboratory at the Massachusetts Institute of Technology (M.I.T.). Mr. Kresa is a member of the National Academy of Engineering and is past Chairman of the Board of Governors of the Aerospace Industries Association and Chairman of the Defense Policy Advisory Committee on Trade. He was elected president of the American Institute of Aeronautics and Astronautics for a one year term, which will end in May 2003, and is a member of the M.I.T. Lincoln Laboratory Advisory Board. He serves on the Board of Directors of the W. M. Keck Foundation and on the Board of Trustees of the California Institute of Technology, and serves as a director of Avery Dennison Corporation, Fluor Corporation, the Los Angeles World Affairs Council, the Alfred Mann Foundation, the John Tracy Clinic and Eclipse Aviation Corporation. He is also a Member of the Corporation, Draper Laboratories, Inc. and serves on the Board of Governors of the Performing Arts Center of Los Angeles.

**LEWIS W. COLEMAN**, 61. *President, Gordon and Betty Moore Foundation.*

*Director since 2001*

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

**PHILIP A. ODEEN**, 67. *Retired Chairman, TRW Inc.*

*Director since 2003*

Philip A. Odeen served as Chairman and a director of TRW Inc. from February 2002 until December 2002. From 2000 to 2002, he was Executive Vice President, Washington Operations of TRW and from 1998 to 2000 he was Executive Vice President and General Manager, TRW Systems & Information Technology. Mr. Odeen joined TRW in 1997 when it acquired BDM International, Inc. where he had served as President, Chief Executive Officer and director from 1992 to 1997. Previously, Mr. Odeen was Vice Chairman, Management Consulting Services at Cooper & Lybrand after serving 13 years as managing partner of the firm s public sector practice. He has served in senior positions with the Office of the Secretary of Defense and the National Security Council staff and was principal Deputy Assistant Secretary of Defense (Systems Analysis). Mr Odeen has chaired the National Defense Panel and is a member and former vice chairman of the Defense Science Board and is a member of the Chief of Naval Operations Executive Panel. He is a director of Avaya Inc., Convergys Corp., Reynolds and Reynolds Company and Washington Gas Light Company.

**AULANA L. PETERS**, 61. *Retired Partner, Gibson, Dunn & Crutcher.*

*Director since 1992*

Aulana L. Peters is a retired partner of the law firm of Gibson, Dunn & Crutcher where she was a partner from 1980 to 1984 and 1988 to December 2000. From 1984 to 1988, she served as a Commissioner of the Securities and Exchange Commission. From January 2001 to April 2002 Ms. Peters served as a member of the Public Oversight Board of the American Institute of Certified Public Accountants. Ms. Peters has also served as a member of the Financial Accounting Standards Board Steering Committee for its Financial Reporting Project and as a member of the Public Oversight Board s Panel on Audit Effectiveness. Currently Ms. Peters serves on the U.S. Comptroller General s Accountability Advisory Council. Ms. Peters is a director of 3M Corporation, Merrill Lynch & Co., Inc. and Deere & Company. She is also a member of the

Board of Directors of Community Television for Southern California (KCET).

**CONTINUING DIRECTORS — CLASS II**

**PHILLIP FROST**, 66. *Chairman of the Board and Chief Executive Officer, IVAX Corporation, a pharmaceutical company.*

*Director since 1996*

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

**CHARLES H. NOSKI**, 50. *Retired Vice Chairman, AT&T.*

*Director since 2002*

Mr. Noski joined AT&T in 1999 as Senior Executive Vice President and Chief Financial Officer and was named Vice Chairman of AT&T s Board of Directors in 2002. Mr. Noski relinquished the position of Chief Financial Officer in June 2002 and retired from AT&T once its restructuring was completed with the merger of AT&T Broadband with Comcast Corp. Prior to joining AT&T, Mr. Noski was President, Chief Operating Officer, and a member of the board of directors of Hughes Electronics, a publicly-traded subsidiary of General Motors in the satellite and wireless communications business. From 1992 to 1996, he was corporate senior vice president and chief financial officer of Hughes and was elected vice chairman in 1996. Mr. Noski was a partner at Deloitte & Touche prior to joining Hughes as corporate vice president and controller in 1990. He is a member of the American Institute of Certified Public Accountants and a past member of the Financial Accounting Standards Advisory Council. Mr. Noski is a director of Teledyne Technologies Inc. and Air Products & Chemicals, Inc.

**JAY H. NUSSBAUM**, 59. *Executive Vice President, BearingPoint, Inc., a consulting company.*

*Director since 2001*

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

**JOHN BROOKS SLAUGHTER**, 69. *President and Chief Executive Officer, National Action Council for Minorities in Engineering, Inc.*

*Director since 1993*

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

## COMMITTEES OF THE BOARD OF DIRECTORS

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

| Audit | Compensation and Management Development | Nominating and Corporate Governance | Finance | Compliance, Public Issues and Policy |
|---|---|---|---|---|
| John Brooks Slaughter | John T. Chain, Jr. | Phillip Frost | Lewis W. Coleman | Aulana L. Peters |
| Lewis W. Coleman | Lewis W. Coleman | John T. Chain, Jr. | John T. Chain, Jr. | Vic Fazio |
| Vic Fazio | Phillip Frost | Vic Fazio | Phillip Frost | Charles R. Larson |
| Charles R. Larson | Jay H. Nussbaum | Charles R. Larson | Charles H. Noski | John Brooks Slaughter |
| Charles H. Noski | | Aulana L. Peters | Jay H. Nussbaum | |
| Aulana L. Peters | | | Philip A. Odeen | |

### Audit Committee

The Audit Committee meets periodically with management and with both the Company s independent auditors and the Company s Vice President of Internal Audit to review audit results and the adequacy of and compliance with the Company s system of internal controls. In addition, the Audit Committee appoints or discharges the Company s independent auditors, and reviews and approves auditing services and non-prohibited non-audit services to be provided by the independent auditors to evaluate the impact of undertaking such added services on the independence of the auditors. The responsibilities of the Audit Committee are more fully described in the Audit Committee Report on page 19 and the Audit Committee Charter which is Exhibit A. The Board of Directors has determined that Messers. Coleman and Noski each qualify as an audit committee financial expert as defined under applicable Securities and Exchange Commission rules. The Audit Committee held eight meetings in 2002.

### Compensation and Management Development Committee

The Compensation and Management Development Committee (the Compensation Committee ) recommends to the Board of Directors the base salary and incentive compensation of the Chief Executive Officer and the President and takes final action with respect to base salary and incentive compensation for the other elected officers and key employees. It reviews the Company s compensation policies and management actions to assure the succession of qualified officers. The Compensation Committee also establishes the Company s annual performance objectives under the incentive compensation plans and recommends to the Board of Directors the amounts to be appropriated for awards under such plans and under the Company s 2002 Incentive Compensation Plan (the 2002 Incentive Plan ). The Compensation Committee grants awards under and administers the Company s Stock Plans (as defined below) and recommends to the Board of Directors all compensation plans in which Company officers are eligible to participate. The Compensation and Management Development Committee held eight meetings in 2002.

### Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee reviews candidates to serve as directors and recommends to the Board of Directors nominees for election. The activities and associations of each candidate are reviewed for any legal impediment, conflict of interest or other consideration that might prevent service on the Board of Directors. In making its selection, the Committee bears in mind that the foremost responsibility of a Northrop Grumman director is to represent the interests of the stockholders as a whole. The Committee has authority to engage outside advisors to identify director candidates as the Committee deems necessary and will consider nominees recommended by stockholders if such nominations have been submitted in writing, accompanied both by a description of the proposed nominee s qualifications and an indication of the consent of the proposed nominee and relevant biographical information. The recommendation should be addressed to the Nominating and Corporate Governance Committee in care of the Secretary of the Company. The Nominating and Corporate Governance Committee makes recommendations to the Board of Directors concerning the composition and size of the Board of Directors, candidates to fill vacancies and the remuneration of non-employee directors. The Committee also reviews matters involving corporate governance in general and makes recommendations to the Board of Directors for action. The Nominating and Corporate Governance Committee held four meetings in 2002.

**Finance Committee**

The Finance Committee reviews and makes recommendations concerning proposed dividend actions and issuance or redemption of debt or equity securities. The Finance Committee considers and makes recommendations for final action by the Board on contracts, programs, acquisitions, mergers or divestments of an unusual or material nature. The Finance Committee also reviews the investment performance of the employee benefit plans, capital asset requirements and short-term investment policy when appropriate. The Finance Committee held six meetings in 2002.

**Compliance, Public Issues and Policy Committee**

The Compliance, Public Issues and Policy Committee reviews and monitors the Northrop Grumman Employees Political Action Committee and makes policy and budget recommendations to the Board on proposed charitable contributions and aid to higher education. The Committee reviews and monitors the Company s policies and programs for ethics and business conduct, equal opportunity and diversity plans and programs, and environmental health and safety policies and procedures. This Committee also reviews and approves the Company s policy for engaging the services of consultants and commission agents. The Compliance, Public Issues and Policy Committee held four meetings in 2002.

**BOARD AND COMMITTEE MEETINGS**

During 2002, the Board held 12 meetings and the committees described above held 30 meetings. Average attendance at all such meetings was 98%. Each director attended at least 91% of the total number of board and committee meetings he or she was eligible to attend.

**COMPENSATION OF DIRECTORS**

The Company paid each director an annual retainer of $32,000 and an additional $1,000 for each Board and committee meeting attended during 2002. Committee chairpersons were also paid an annual retainer of $3,000. In 2002, the Nominating and Corporate Governance Committee engaged an outside consultant to conduct a competitive assessment of outside director compensation. The outside consultant analyzed director pay by component and in total and suggested modifications to place the Company s director pay between the median and the average for Fortune 100 Companies. The Board of Directors also approved an enhanced meeting fee for the Audit Committee and an increased retainer for the Audit Committee chairman to reflect the increased workload and responsibilities for these individuals.

Therefore, effective January 1, 2003, the annual retainer for each director was increased to $50,000 and the committee chairperson s annual retainer was increased to $5,000, with the exception of the Audit Committee Chairperson, who will receive an annual retainer of $7,500. The per meeting fee for Audit Committee members was increased to $1,500 for each Audit Committee meeting attended. The per meeting fees for other committee meetings and Board meetings remain at $1000. Any director who performs extraordinary services for the Board at the request of the

Chairman of the Board or the chairperson of a committee is paid $1,000 per day. Directors are reimbursed for all reasonable expenses in attending these meetings and in performing extraordinary services. Directors who are employees of the Company do not receive any compensation for their service as directors.

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

The 1995 Stock Option Plan for Non-Employee Directors, as amended, provides for the annual grant of options to each non-employee director to purchase 1,500 shares of Common Stock with an exercise price equal to the fair market value of the Common Stock on the grant date. On May 20, 2002, each non-employee director received an automatic grant of options to purchase 1500 shares of Common Stock with an exercise price of $123.04 per share. The options are immediately exercisable on the grant date and have a term of ten years. If the individual ceases to serve as a director, the options continue to be exercisable for the lesser of five years or the expiration of the original term of the options. If termination is for cause, the options terminate when the director ceases to serve.

On March 19, 1997, the Board of Directors adopted the Northrop Grumman Non-Employee Directors Equity Participation Plan (the Equity Plan ). Under the Equity Plan, outside directors have an amount equal to 50% of their annual retainer credited to an equity participation account and converted into stock units based on the then fair market value of the Common Stock. Each stock unit will be credited with dividend equivalents, which will be deemed reinvested in additional stock units. Each outside director who terminates service after three or more years of service shall be entitled to receive cash payments from the equity participation account in a number of annual installments equal to the number of years for which benefits have been accrued (not to exceed ten), each installment to be in an amount equal to the dollar value of the equity participation account based on Common Stock value as of the date of determination of the installment payment, divided by the number of installments then remaining to be paid. In December 2002, the Equity Plan was amended to provide that an outside director could also receive a benefit under the Equity Plan if:

(1) He or she terminated service on the Board for the sole purpose of pursuing or accepting a position (whether appointed, elected, or otherwise) with a federal, state, or local government entity or for some other purpose that is determined by the Company to constitute public service; and

(2) He or she recommenced service on the Board as an outside director within a reasonably practicable period following the termination of, or termination of the pursuit of, the governmental or public service position and the participant s total service before and after the termination and recommencement of service on the Board, when aggregated, equals at least three years of service.

Upon a change in control (as defined in the Equity Plan) benefits under the Equity Plan immediately vest. The Board of Directors believes that the Equity Plan further aligns the interests of the directors with the interests of the stockholders by making this part of the directors benefits dependent upon the value of the Common Stock. All the non-employee directors participate in the Equity Plan.

**Related Transactions**

Ms. Peters, one of our directors, retired as a partner of the law firm of Gibson, Dunn & Crutcher on December 31, 2000. The firm provided legal counsel during 2002 in connection with various corporate matters.

Mr. Nussbaum, also one of our directors, is Executive Vice President of BearingPoint, Inc. (formerly KPMG Consulting, Inc.) The Company paid a total of $203,335 to BearingPoint, Inc. in 2002, primarily for technical services on the Total Systems Support Partnership, ( TSSP ) a joint program between the Company and the U.S. Air Force for total support for the B-2 aircraft operations and depot. These services were provided through the Integrated Systems and Information Technology sectors with BearingPoint, Inc. advising the TSSP on the best methods for extracting data from government databases, the preferred relationship with those databases and Company maintained databases and similar aid.

**NORTHROP GRUMMAN CORPORATION**

**PRINCIPLES OF CORPORATE GOVERNANCE**

The primary responsibility of the Board of Directors is to foster the long-term success of the Company, consistent with representing the interests of the shareholders. In accordance with this philosophy, the Board of Directors has adopted Principles of Corporate Governance that reinforce the Company s values by promoting responsible business practices and good corporate citizenship.

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

- Has not in the last five years been an officer or employee of the Company, its independent auditor, or any company whose compensation committee includes an officer of the Company or any immediate family members of the foregoing;
- Is not related to an officer of the Company by blood, marriage or adoption;
- Is not, and has not within the last two years been an officer, director, employee or one percent owner of any entity that has made or proposes to make payments for property or services in excess of one percent of the gross revenues of the Company or the other entity;
- Is not a director, partner, officer or employee of an investment banking firm, which has performed services for the Company in the last two years or which the Company proposes to have perform services in the next year, other than as a participating underwriter in a syndicate; and
- Does not have any other relationship with the Company which the Board determines is material.

The following Committees are always composed of only Independent Outside Directors:

- Audit
- Nominating & Corporate Governance
- Compliance, Public Issues and Policy
- Compensation & Management Development

The Nominating & Corporate Governance Committee, with input from the Chairman and CEO, considers and makes recommendations to the Board concerning the appropriate size and composition of the Board. Candidates are selected based on their qualifications, character, judgment and experience, and other relevant criteria including the needs of the Board at that particular time. Final approval of a candidate is determined by the full Board.

All new directors receive an orientation which is individually designed for each director taking into account his or her experience, background, education, and committee assignments. This orientation includes one-on-one meetings with senior management and extensive written materials on the Company and its various products and operations.

The Board holds its meetings at other company locations on a regular basis to provide the directors with in- depth review of the business at that location, a first-hand view of the operations and an opportunity for the Board members to interact with management at the facility.

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

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

The Board of Directors, with recommendations from the Nominating & Corporate Governance Committee, appoints the members and chair of the committees. These appointments are based on an analysis of the skills, experience and other qualities of each individual director in relation to the requirements of the particular committee. Committee membership is reviewed annually and members are rotated as appropriate.

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

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

Non-employee directors are required to receive at least thirty percent of their annual retainer in Company stock and are permitted to defer the remainder of their retainer as well as any committee meeting fees or chair retainer fees to be paid in Company stock at a later date.

The Nominating & Corporate Governance Committee reviews and recommends to the Board non-employee director compensation. The Committee consults with outside advisors to ensure that the form and amount are appropriate for attracting quality individuals to serve on the Board.

Every year the Board of Directors conducts an assessment of its performance and discusses any resulting recommendations.

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

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

- Annually evaluate the CEO based on a specific set of performance objectives;

- Annually provide the Compensation and Management Development Committee with an assessment of persons considered potential successors to certain management positions. The results of these reviews are reported to and discussed with the Board; and

- Ensure continuity of top leadership, including CEO succession.

The chief executive officer will establish the agenda for each Board meeting. Any other member of the Board is free to suggest the addition of any other item(s). The chairpersons of the committees will coordinate committee meeting agendas with appropriate members of management. Other committee members are free to suggest additional agenda items.

## REPORT OF THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

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

### Compensation Philosophy

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

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

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

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

### Deductibility of Compensation

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

In May 2002, the stockholders approved the 2002 Incentive Compensation Plan ( the Plan ). This Plan was developed to reflect current competitive market practices within the limitations of Section 162(m) and replaced the Company s 1973 Incentive Compensation Plan, as amended. Incentive compensation over $1 million paid under the Plan should be deductible.

**Measuring Company Performance**

Consistent with the Company s business plan, management of each business sector submits for assessment an Annual Operating Plan containing Financial and Supplemental Goals together with defined performance measures and numerical weights.

- *Financial Goals* focus on operating earnings, cash flow and stockholder value metrics.
- *Supplemental Goals* focus on such factors as customer satisfaction, new product development, new business initiatives, productivity, quality improvement, workplace diversity, management development, and environmental management.

Annually, the Compensation Committee reviews, approves or, and at its discretion modifies the CEO s written proposal of goals and numerical values for Performance Measurement Factors. Performance highlights against 2002 goals can be found below in *Chief Executive Officer Compensation*.

For Performance Year 2002 the Compensation Committee established Performance Measurement Factors addressing *Stockholder Value Creation, Cash Flow, Net Debt Reduction and Supplemental Goals* in order to judge the Company s performance and that of executive officers.

**Determining Competitive Compensation**

In determining base salaries and incentive compensation for the named executive officers, sources of competitive compensation information are independent surveys of industry peer companies. Peer companies include firms comprising the aerospace and defense group depicted in the performance graph in the *Shareowner Return Performance Presentation* following this Report and other companies designated by the Compensation Committee.

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

**Establishing Executive Compensation**

The Company s executive compensation program includes the following linked elements:

- Base Salary
- Annual Incentive Compensation
- Long-Term Incentive Compensation.

*Base Salary*

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

*Annual Incentive Compensation*

Executives who are Section 162(m) officers are eligible for incentive compensation annually under the Company s stockholder-approved 2002 Incentive Compensation Plan. Performance criteria, as approved by shareholders, include objective tests of financial performance. The Committee appropriates an amount (Tentative Appropriated Incentive Compensation) to the Plan equal to 2½% of the Company s Economic Earnings as defined by the Plan.

As stipulated by the Plan, the maximum potential individual incentive compensation award for a Performance Year for an executive officer shall be limited to no more than thirty percent (30%) for the CEO and seventeen and one-half percent (17.5%) for each of the other four Section 162(m) officers.

Accompanying his annual performance report, the CEO submits recommendations to the Compensation Committee for individual incentive awards for the executive officers, except the CEO, which reflect judgments as to contributions to the accomplishment of annual goals and the Company s long-term business plan.

Separately, the Compensation Committee considers an incentive compensation award for the CEO based on its assessment of performance.

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

*Long-Term Incentive Compensation*

Stockholders approved the 2001 Long Term Incentive Stock Plan in May 2001. The Plan provides flexibility to grant awards in a variety of forms including stock options, restricted stock rights (RSRs) and restricted performance stock rights (RPSRs). The purpose of this compensation component is to establish long-term performance horizons for participants. By promoting ownership of the Company s common stock, the Plan creates stockholder-managers interested in Northrop Grumman s sustained growth and prosperity.

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

In August 2002 awards of stock options and RPSRs were granted to the CEO, executive officers and key employees under the terms of the 2001 Long Term Incentive Stock Plan.

**Chief Executive Officer Compensation**

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

In considering Mr. Kresa s performance and establishing his annual incentive compensation, the Compensation Committee reviewed the overall Company performance against the 2002 financial and supplemental goals and Mr. Kresa s contributions during the year. The Compensation Committee noted that the Company exceeded all of the Performance Measurement Criteria set forth at the beginning of the period. Additionally, the Compensation Committee recognized that under Mr. Kresa s leadership:

- Northrop Grumman completed the acquisition of TRW Inc. on Dec. 11, 2002, in a transaction valued at approximately $12.5 billion including the assumption of TRW s debt of $4.8 billion. This capstone acquisition added the last critical node of space to Northrop Grumman s robust and well-diversified defense and systems capabilities. The combination also created the nation s second largest defense contractor. Northrop Grumman has reached an agreement to sell TRW s Automotive business to The Blackstone Group prior to the TRW acquisition being finalized. The deal valued TRW Automotive at $4.7 billion. Proceeds are being used primarily to pay down debt.

- Northrop Grumman and Lockheed Martin Corporation were selected for the nation s largest Homeland Security program to-date, an $11 billion, 20-year program to supply the next generation of U.S. Coast Guard ships, aircraft, command and control, and logistics systems. The Deepwater program is the largest modernization effort in the Coast Guard s history. The program will involve the acquisition of up to 91 ships, 35 fixed-wing aircraft, 34 helicopters, 76 unmanned surveillance aircraft, and upgrade of 49 existing cutters and 93 helicopters, in addition to systems for communications, surveillance and command and control. Deepwater s total potential value over three decades is estimated at approximately $17 billion.

- Northrop Grumman leads a team competing to complete the system design for the U.S. Navy s advanced, 21st century surface combatant, DD(X). The initial design contract has a total value of approximately $2.9 billion over four years. The DD(X) is the centerpiece of the Navy s transformation to stealthy surface combatants to be designed and built during the next 25 years. The contract highlighted the Company s ability to leverage capabilities across five of the Company s seven sectors Ship Systems, Newport News, Information Technology, Electronic Systems and Integrated Systems.

- The U.S. Army chose Northrop Grumman s Information Technology sector to provide software and systems engineering support to its Communications-Electronics Command (CECOM). The five base years of the indefinite quantity/indefinite delivery contract have a potential value of $702 million to the IT sector.

- BusinessWeek magazine named Kent Kresa one of the nation s Top 25 Managers of 2001 for his efforts in completing two of the defense industry s biggest mergers and for winning funding for programs such as the F/A-22 fighter and the F-35 Joint Strike Fighter.

- The Company s Integrated Systems sector received a contract for the E-2C Hawkeye Radar Modernization Program, marking the beginning of a $1 billion-plus development of unprecedented early warning and battle management capabilities by 2010. It is also expected to lead to a multibillion-dollar program for production of the next-generation Hawkeye.

- Because of strong organic growth and positive results being generated by strategic acquisitions, the Company generated 2002 revenues of $17.2 billion, and had solid cash generation of $1.7 billion. Northrop Grumman began 2003 with a $26 billion funded order backlog, and has excellent opportunities to benefit from increasing defense budgets and homeland security initiatives. As a result of these and many more accomplishments, Forbes magazine named Northrop Grumman its 2002 Company of the Year.

Based on its assessment, the Compensation Committee determined and the Board ratified an incentive compensation award for Mr. Kresa for 2002 as depicted in the Summary Compensation Table.

**THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE**

**JOHN T. CHAIN, JR. CHAIRMAN**

**LEWIS W. COLEMAN**

**PHILLIP FROST**

**JAY H. NUSSBAUM**

**Stockholder Return Performance Presentation**

The line graph below compares the relative change for the 5 year period ended December 31, 2002 in the cumulative total stockholder return on the Company s Common Stock against the cumulative total return of the S&P Composite-500 Stock Index, and the S&P Aerospace/Defense Index comprised of The Boeing Company, General Dynamics Corporation, Goodrich Corporation, Honeywell International Inc., Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company (B), Rockwell Collins, Inc. and United Technologies Corporation.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN**

**AMONG NORTHROP GRUMMAN CORPORATION,**

**S&P 500 INDEX & S&P AEROSPACE/DEFENSE INDEX**

**AUDIT COMMITTEE REPORT**

In accordance with its written charter adopted by the Board of Directors, the Audit Committee of the Board assists the Board in fulfilling its oversight responsibilities by reviewing financial reports and other financial information provided by Northrop Grumman to the shareholders and the Securities and Exchange Commission; Northrop Grumman s internal control structure; Northrop Grumman s internal and external audit process; and any other matters relating to Northrop Grumman s accounting and financial reporting process. The Audit Committee also discussed with the Company s senior management and the independent auditors the process used for certifications by the Company s Chief Executive Officer and Chief Financial Officer which is required by the Securities and Exchange Commission and the Sarbanes Oxley Act of 2002 for certain of the Company s filings with the SEC.

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

The Audit Committee routinely met privately with both the independent auditors and the internal auditors, each of whom has unrestricted access to the Audit Committee.

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

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

The Audit Committee reviewed its charter and, after appropriate review and discussion, reaffirmed the Audit Committee Charter on February 19, 2003 with amendments incorporating changes in requirements/responsibilities of the committee required by the Sarbanes Oxley Act of 2002 and other newly passed laws and regulations. A copy of the Audit Committee Charter is attached to this proxy statement as Exhibit A.

The Audit Committee reviewed the audited financial statements of Northrop Grumman as of and for the year ended December 31, 2002, with management and Deloitte & Touche. Management has primary responsibility for Northrop Grumman s financial statements and the overall reporting process, including Northrop Grumman s system of internal controls.

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

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Based upon the Audit Committee s review and discussions with management and Deloitte & Touche relative to Northrop Grumman s audited consolidated statement of financial position as of December 31, 2002 and 2001, and the related consolidated statements of income, comprehensive income, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2002, the Audit Committee recommended to the Board of Directors that Northrop Grumman s Annual Report on Form 10-K include these financial statements. The Audit Committee also reappointed Deloitte & Touche and the Board of Directors concurred on such appointment.

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

**AUDIT COMMITTEE**

**DR. JOHN BROOKS SLAUGHTER, CHAIRMAN**

**LEWIS W. COLEMAN**

**VIC FAZIO**

**CHARLES R. LARSON**

**CHARLES H. NOSKI**

**AULANA L. PETERS**

## EXECUTIVE COMPENSATION

The table below shows the annual and long-term compensation for services in all capacities to the Company for the years ended December 31, 2000 and 2001 and 2002, of the Named Executive Officers at December 31, 2002:

### SUMMARY COMPENSATION TABLE

| | | Annual Compensation | | | Long-Term Compensation | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Awards | | Payouts | |
| **Name and Principal Position** | **Year** | **Salary($)(1)** | **Bonus($)** | **Other Annual Compensation ($)** | **Restricted Stock Award(s) (2) ($)** | **Securities Underlying Options/ SARs(#)** | **LTIP Payouts($)** | **All Other Compensation ($) (3)** |
| 1) KENT KRESA | 2002 | 1,365,264 | 5,000,000 | 79,463(4) | | 125,000 | 2,776,888 | 8,000 |
| Chairman of the Board | 2001 | 1,211,258 | 3,000,000 | 85,079(5) | | 216,230 | 462,070 | 6,800 |
| and Chief Executive Officer | 2000 | 1,025,581 | 2,800,000 | 61,545(6) | | 89,125 | 397,513 | 6,800 |
| 2) RONALD D. SUGAR | 2002 | 790,410 | 1,650,000 | 102,836(7) | | 55,000 | 2,726,566 | 8,000 |
| President and Chief | 2001 | 652,506 | 1,637,963(8) | 7,936,700(9) | 6,448,560(10) | 50,000 | | 8,424,640(11) |
| Operating Officer | 2000 | | | | | | | |
| 3) RICHARD B. WAUGH, JR. | 2002 | 558,001 | 725,000 | | | 114,629 | 1,057,115 | 8,000 |
| Corporate Vice President | 2001 | 512,014 | 760,000 | | | 58,694 | 188,600 | 2,075 |
| and Chief Financial Officer | 2000 | 490,119 | 800,000 | | | 25,602 | 162,250 | 6,800 |
| 4) HERBERT W. ANDERSON | 2002 | 530,294 | 710,000 | | | 20,000 | 951,404 | 8,000 |
| Corporate Vice President | 2001 | 498,280 | 845,000(12) | | | 20,000 | 169,740 | 6,358 |
| and President, | 2000 | 411,055 | 700,000 | | | | 146,025 | 6,800 |
| Information Technology | | | | | | | | |
| 5) ROBERT P. IORIZZO | 2002 | 497,708 | 715,000 | | | 20,000 | 437,666 | 8,000 |
| Corporate Vice President and | 2001 | 357,640 | 565,000 | 67,883(13) | | 22,500 | | 4,587 |
| President, Electronic System | 2000 | 268,762 | 415,000 | | | | | 5,358 |

(1) The amounts listed in this column include amounts paid for vacation hours accrued but not used for the following individuals in the following years: Mr. Kresa: $94,104 in 2002, $85,271 in 2001, $15,966 in 2000; Dr. Sugar: $26,346 in 2001; Mr. Waugh: $13,767 in 2002, $7,871 in 2001, $29,927 in 2000, and Mr. Anderson: $4,108 in 2002, $22,304 in 2001, $7,786 in 2000.

(2) As of December 31, 2002, Dr. Sugar owned 66,480 restricted stock rights ( RSRs ) with an aggregate value of $6,448,560. These shares were granted in 2001 at a grant price of $97.00 per Share.

The RSRs vest in equal installments over a three-year period with the first installment vesting one year after the date of grant and the remaining installments vesting annually thereafter. There are no dividends paid on RSRs.

(3) Except for Dr. Sugar, All Other Compensation consists of Company contributions to the Northrop Grumman Savings and Investment Plan for the Named Executive Officers.

(4) Amount includes $20,923 for car allowance and expenses and $21,918 for insurance premiums.

(5) Amount includes, among other items, $21,427 for car allowance and expenses.

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

(7) Amount includes, among other items, $56,250 for insurance premiums. Dr. Sugar has a Corporate Owned Life Insurance Policy which was provided to him as a Litton executive. $31,083 was paid for this policy in 2002.

(8) Includes a one time prorata bonus of $358,836 for the period of April 3, 2001 to September 19, 2001 and a special cash bonus of $857,963 paid pursuant to an employment agreement entered into with Litton Industries, Inc. upon his hire at that company.

(9) Amount includes $7,073,442 paid to Dr. Sugar as compensation for excise tax imposed on payments made to him pursuant to his employment agreement and change in control agreement with Litton, $822,000 paid under a deferred compensation arrangement with Litton Industries, Inc. and $2,191 in imputed interest on loan which Dr. Sugar repaid to the Company in 2001.

(10) These stock grants were awarded to Dr. Sugar as retention benefits, pursuant to his employment agreement and promotion to President and Chief Operating Officer of the Company.

(11) Represents cash payment for 77,908 shares of Litton restricted stock and 27,400 performance shares that were cancelled upon completion of the Litton merger.

(12) Includes $100,000 special award to Mr. Anderson as a key participant in the Company s acquisition of Litton Industries, Inc.

(13) Amount includes, among other things, $18,296 for dependent travel.

**OPTION GRANTS IN LAST FISCAL YEAR**

The table below shows individual grants of stock options made in 2002 to the Named Executive Officers.

| | Individual Grants | | | | Potential Realizable Value At Assumed Annual Rates Of Stock Price Appreciation for Option Term (1) | |
|---|---|---|---|---|---|---|
| | Number of Securities Underlying Options Granted (#) | % of Total Options Granted to Employees In Fiscal Year | Exercise or Base Price ($/Sh) | Expiration Date | 5%($) | 10%($) |
| Kent Kresa | 125,000(2) | 5.54 | 114.80 | 8/20/12 | 9,024,638 | 22,870,204 |
| Ronald D. Sugar | 55,000(2) | 2.44 | 114.80 | 8/20/12 | 3,970,841 | 10,062,890 |
| Richard B. Waugh, Jr. | 3,725(3) | .17 | 98.32 | 11/18/02 | 15,598 | 31,087 |
| | 6,608(3) | .29 | 98.32 | 11/18/03 | 61,537 | 125,632 |
| | 7,378(3) | .33 | 98.32 | 12/21/04 | 112,212 | 235,330 |
| | 7,227(3) | .32 | 98.32 | 11/16/05 | 146,918 | 315,204 |
| | 11,237(3) | .50 | 98.32 | 12/18/06 | 301,101 | |