

NORTHROP GRUMMAN CORP /DE/  
Form DEF 14A  
April 06, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

**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):

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April 6, 2012

On behalf of the Board of Directors and management team, we cordially invite you to attend Northrop Grumman Corporation's 2012 Annual Meeting of Shareholders. This year's meeting will be held Wednesday, May 16, 2012 at our principal executive office located at 2980 Fairview Park Drive, Falls Church, Virginia, 22042 beginning at 8:00 a.m. Eastern Daylight Time.

We look forward to meeting those of you who are able to attend the meeting, which will be our first annual meeting held in our new corporate headquarters. For those who are unable to attend, live coverage of the meeting will be available on the Northrop Grumman Web site at [www.northropgrumman.com](http://www.northropgrumman.com).

At this meeting, shareholders will vote on matters set forth in the accompanying Notice of Annual Meeting and Proxy Statement. We will also provide a report on our Company and will entertain questions of general interest to the shareholders.

Your vote is important. Your proxy or voting instruction card includes specific information regarding the several ways to vote your shares. We encourage you to vote as soon as possible, even if you plan to attend the meeting. You may vote over the internet, by telephone or by mailing a proxy or voting instruction card.

Thank you for your continued interest in Northrop Grumman Corporation.

Wes Bush

Chairman, Chief Executive Officer and President

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2012 PROXY STATEMENT | 1

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

The Annual Meeting of Shareholders of Northrop Grumman Corporation will be held on Wednesday, May 16, 2012 at 8:00 a.m. Eastern Daylight Time at our principal executive office located at 2980 Fairview Park Drive, Falls Church, Virginia 22042.

Shareholders of record at the close of business on March 20, 2012 are entitled to vote at the Annual Meeting. The following items are on the agenda:

- (1) The election of the thirteen nominees named in the attached Proxy Statement as directors to hold office until the 2013 Annual Meeting of Shareholders;
- (2) A proposal to approve, on an advisory basis, the compensation of our named executive officers;
- (3) A proposal to ratify the appointment of Deloitte & Touche LLP as our independent auditor for the year ending December 31, 2012;
- (4) A proposal to approve an amendment to the Certificate of Incorporation of Titan II, Inc. (now a wholly-owned subsidiary of Huntington Ingalls, Inc.), to eliminate the provision requiring our shareholders to approve certain actions by or involving Titan II, Inc.;
- (5) A proposal to approve an amendment and restatement of our Certificate of Incorporation to provide additional rights for holders of the Company's common stock to act by written consent subject to various provisions;
- (6) One shareholder proposal included and discussed in the accompanying Proxy Statement; and
- (7) Other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

All shareholders are invited to attend the Annual Meeting. To be admitted you will need a form of photo identification. If your broker holds your shares in street name, you will also need proof of beneficial ownership of Northrop Grumman common stock.

By order of the Board of Directors,

Jennifer C. McGarey

*Corporate Vice President and Secretary*

2980 Fairview Park Drive

Falls Church, Virginia 22042

April 6, 2012

**IMPORTANT**

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be held on May 16, 2012:**

**The Proxy Statement for the 2012 Annual Meeting of Shareholders and the Annual Report for the year ended December 31, 2011 are available at: [www.edocumentview.com/noc](http://www.edocumentview.com/noc).**

**You may submit a proxy by telephone or over the internet. For instructions on submitting an electronic proxy please see the section entitled *Questions and Answers About the Annual Meeting* in this Proxy Statement or the proxy card.**

**If you receive a proxy card, please sign, date and return the proxy card for which a return envelope is provided. No postage is required if mailed in the United States.**

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### SUMMARY INFORMATION

*This summary provides Business, Compensation and Corporate Governance Highlights from our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (our 2011 Form 10-K) as filed with the SEC on February 8, 2012 and elsewhere in this Proxy Statement and is provided to assist you in reviewing the Company's 2011 performance. The information contained below is only a summary. For additional information about these topics, please refer to the more fulsome discussions contained in this Proxy Statement and in our 2011 Form 10-K.*

### BUSINESS HIGHLIGHTS

Our strong 2011 financial results demonstrate our progress in achieving superior operating performance and our effective cash deployment. We achieved higher operating income, earnings and cash flow in a challenging federal budget environment, while continuing to align our portfolio with our customers' emphasis on affordability and in markets such as Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), unmanned systems, cybersecurity and logistics. Our 2011 results continue a record of improving performance aimed at value creation for our shareholders, customers and employees.

**Portfolio Highlights** In March 2011, we completed the spin-off of our former shipbuilding business. In the spin-off, our shareholders received shares of the new shipbuilding company, Huntington Ingalls Industries, Inc. (HII), which represented equity value of \$1.8 billion at the time of the spin-off. We also refined our portfolio by divesting or de-emphasizing certain non-core and underperforming businesses. These actions improved our financial performance and sharpened our focus on four core areas: C4ISR, manned and unmanned systems, cybersecurity and logistics.

**Performance Highlights** 2011 earnings from continuing operations increased 10% to \$2.1 billion from \$1.9 billion in 2010. Earnings per share from continuing operations increased 17% to \$7.41 from \$6.32. This increase resulted from improved performance from our businesses, more favorable pension expense, lower interest expense and fewer shares outstanding as a result of our substantial share repurchases. These positive trends more than offset lower sales and higher taxes in 2011. Segment operating income generated by our businesses rose during the year and as a percentage of sales increased to 11.6%. Total operating income increased 16% and as a percent of sales increased to 12.4%.

We also generated higher cash from operations and higher free cash flow in 2011.\* Cash provided by operations before our discretionary after-tax pension contributions (CPO) totaled approximately \$3 billion, and free cash flow before discretionary after-tax pension contributions (FCF) totaled \$2.5 billion.\*

**Cash Deployment** Our strong cash generation in 2011 and the \$1.4 billion cash contribution from the HII spin-off allowed us to repurchase 40.2 million shares for \$2.3 billion. We also raised our quarterly dividend 6.4% to an annualized rate of \$2.00 per share, our eighth consecutive annual dividend increase. Cash returned to shareholders through dividends and share repurchases totaled \$2.8 billion in 2011.

\* Cash from operations and free cash flow presented are before discretionary after-tax pension contributions of \$648 million in 2011 and \$539 million in 2010. The information presented is a non-GAAP metric. For more information, see "Miscellaneous Use of Non-GAAP Financial Measures" on page 71 of

this Proxy Statement.

I NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2012 PROXY STATEMENT



**Table of Contents****SUMMARY INFORMATION** *(continued)***2011 COMPENSATION HIGHLIGHTS**

- i The compensation earned in 2011 by our Chief Executive Officer ( CEO ) and the other named executive officers ( NEOs ), as described in the Compensation Discussion and Analysis section of this Proxy Statement, reflect our Company's strong financial performance, achievement of the performance targets established by the Compensation Committee of the Board of Directors, and continued progress toward exceeding peer average financial benchmarks.
- j Consistent with our compensation philosophy, more than 90% of our CEO's 2011 compensation and more than 80% of the other NEOs' 2011 compensation was incentive-based pay. 2011 compensation earned also included special incentive grants awarded in February 2011 to certain NEOs designed to promote management's long-term focus on financial and operational performance.

**CEO Total Direct Compensation**

	2011	2011	2011	2011	%
	Base Salary	Annual Incentive Award	Long-Term Incentive Award*	Total Direct Compensation	Incentive-Based**
Wesley G. Bush	\$ 1,471,251	\$ 4,027,500	\$ 12,977,692	\$ 18,476,443	92%
James F. Palmer	\$ 845,258	\$ 1,250,000	\$ 3,244,427	\$ 5,339,685	84%
Gary W. Ervin	\$ 845,257	\$ 1,250,000	\$ 4,522,894	\$ 6,618,151	87%
James F. Pitts	\$ 845,258	\$ 1,200,000	\$ 3,244,427	\$ 5,289,685	84%
Linda A. Mills	\$ 770,233	\$ 1,150,000	\$ 2,919,965	\$ 4,840,198	84%

\* Represents the total value of option awards and stock awards granted in 2011.

\*\* Percentage of Incentive-based pay represents the sum of actual annual incentive and long-term incentive grant value as a percentage of total direct compensation earned during the year.

**CORPORATE GOVERNANCE HIGHLIGHTS**

We are committed to good corporate governance, including maintaining and facilitating open lines of communication with our shareholders. Corporate governance highlights include:

- i *Ability of Shareholders to Act by Written Consent* Our Board of Directors carefully considered the input of shareholders at last year's annual meeting and has submitted to shareholders for approval a proposed amendment to our Certificate of Incorporation that will permit greater shareholder action by written consent. We believe this change represents a meaningful additional right for our shareholders.

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- i *Say-on-Pay Advisory Vote* We were pleased that last year's shareholders' vote supported the compensation of our named executive officers. In response to last year's say-on-frequency advisory vote, we will submit to shareholders a non-binding say-on-pay resolution on our executive compensation again this year, and on an annual basis.
  
- i *Political Contributions* As a result of last year's shareholder proposal and other shareholder input aimed at increasing transparency with respect to our political activities, we undertook a comprehensive review of our political contribution activity. After this review, we have significantly enhanced our disclosure on our website regarding political contributions made by the Company and by our employees' political action committee.
  
- i *Director Stock Ownership* To encourage directors further to have a direct and material investment in our common stock, we implemented director stock ownership requirements that require each director ultimately to own stock of the Company in an amount equal to five times their annual cash retainer.
  
- i *Election of Additional Independent Directors* We increased the Board size to thirteen directors, twelve of whom are independent, and we appointed two additional independent directors to the Board.
  
- i *Shareholder Outreach* We have expanded our shareholder engagement program to foster increased communication with our shareholders and redesigned this Proxy Statement in an effort to provide more understandable and easily accessible disclosure for our shareholders.

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**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

**Why am I receiving this Proxy Statement?**

You are receiving this Proxy Statement in connection with the solicitation of proxies by the Board of Directors of Northrop Grumman Corporation for use at the 2012 Annual Meeting of Shareholders (the Annual Meeting ).

The Annual Meeting will be held at our principal executive office, located at 2980 Fairview Park Drive, Falls Church, Virginia, 22042.

We intend to mail a Notice of Internet Availability of Proxy Materials to shareholders of record and to make this Proxy Statement and accompanying materials available on the internet on or about April 6, 2012.

This Proxy Statement describes the matters on which the Board of Directors requests your vote, provides information on those matters and provides additional information about the Company.

**Who is entitled to vote at the Annual Meeting?**

You may vote your shares of our common stock if you owned your shares as of the close of business on March 20, 2012 (the Record Date ). As of March 20, 2012, there were 253,008,230 shares of our common stock outstanding. You may cast one vote for each share of common stock you hold as of the Record Date on all matters presented.

**How many votes must be present to hold the Annual Meeting?**

The presence in person or by proxy of the holders of a majority of the shares entitled to vote at the Annual Meeting will constitute a quorum at the Annual Meeting. Persons returning executed proxy cards will be counted as present for purposes of establishing a quorum even if they abstain from voting on any or all proposals. Shares held by brokers who vote such shares on any proposal will be counted as present for purposes of establishing a quorum, and broker non-votes on other proposals will not affect the presence of a quorum.

**How can I receive a paper copy of the proxy materials?**

Instead of mailing a printed copy of this Proxy Statement and accompanying materials to each shareholder of record, we have elected to provide a Notice of Internet Availability of Proxy Materials as permitted by the rules of the Securities and Exchange Commission ( SEC ). This notice instructs you as to how you may access and review all of the proxy materials and how you may provide your proxy. If you would like to receive a printed or e-mail copy of this Proxy Statement and accompanying materials from us, you must follow the instructions for requesting such materials included in the Notice.

**What am I being asked to vote on?**

The proposals scheduled to be voted on are:

- i Election of thirteen director nominees named in this Proxy Statement as directors (Proposal One);
- i Approval, on an advisory basis, of the compensation of our named executive officers (Proposal Two);
- i Ratification of the appointment of Deloitte & Touche LLP as our independent auditor for the year ending December 31, 2012 (Proposal Three);

- i Approval of an amendment to the Certificate of Incorporation of Titan II, Inc. (now a wholly-owned subsidiary of Huntington Ingalls, Inc.), to eliminate the provision requiring our shareholders to approve certain actions by or involving Titan II, Inc. (Proposal Four);
- i Approval of the amendment and restatement of our Certificate of Incorporation to provide additional rights for holders of our common stock to act by written consent subject to various provisions (Proposal Five); and
- i A shareholder proposal included and discussed in this Proxy Statement requiring an independent chairperson of the Board of Directors (Proposal Six).

**What are the Board of Directors recommendations?**

The Board of Directors recommends a vote:

- i FOR the election of the thirteen nominees for director (Proposal One);
- i FOR the approval, on an advisory basis, of the compensation of our named executive officers (Proposal Two);
- i FOR the ratification of the appointment of Deloitte & Touche LLP as our independent auditor for the year ending December 31, 2012 (Proposal Three);
- i FOR the approval of an amendment to the Certificate of Incorporation of Titan II, Inc. (now a wholly-owned subsidiary of Huntington Ingalls, Inc.), to eliminate the provision requiring our shareholders to approve certain actions by or involving Titan II, Inc. (Proposal Four);
- i FOR the approval of the amendment and restatement of our Certificate of Incorporation to provide additional rights for holders of our common stock to act by written consent subject to various provisions (Proposal Five); and
- i AGAINST the shareholder proposal regarding an independent board chairman (Proposal Six).

**Table of Contents****QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING** *(continued)***How many votes are needed to approve each proposal?**

The following table summarizes the vote required for approval of each proposal and the effect of abstentions and broker non-votes:

Proposal	Vote Required	Abstentions	Broker		Unmarked	
			Non-Votes	Proxy Cards		
Election of Directors	Majority of votes cast	No effect	No effect	Voted	FOR	
<i>(Proposal One)</i>						
Advisory Vote on Compensation of Named Executive Officers	Majority of votes cast	No effect	No effect	Voted	FOR	
<i>(Proposal Two)</i>						
Ratification of Appointment of Deloitte & Touche LLP	Majority of votes cast	No effect	No effect	Voted	FOR	
<i>(Proposal Three)</i>						
Amendment of Titan II, Inc. Certificate of Incorporation	Majority of outstanding shares	Treated as votes AGAINST	Treated as votes AGAINST	Voted	FOR	
<i>(Proposal Four)</i>						
Amendment and Restatement of Northrop Grumman Corporation Certificate of Incorporation to Provide Additional Rights for Shareholder Action by Written Consent	Majority of outstanding shares	Treated as votes AGAINST	Treated as votes AGAINST	Voted	FOR	
<i>(Proposal Five)</i>						
Shareholder Proposal Independent Board Chairperson	Majority of votes cast	No effect	No effect	Voted	AGAINST	
<i>(Proposal Six)</i>						

**What is a broker non-vote?**

Brokers who hold shares of common stock for the accounts of their clients may vote these shares either as directed by their clients or in their own discretion if permitted by the stock exchanges or other organizations of which they are members. Members of the New York Stock Exchange ( NYSE ) are permitted to vote their clients' proxies in their own discretion on certain matters if the clients have not furnished voting instructions within ten days of the meeting. However, NYSE Rule 452 defines various proposals as non-discretionary, and brokers who have not received 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 withheld votes are referred to as broker non-votes. We expect the NYSE will deem Proposal Three to be discretionary such that brokers will be entitled to vote shares on behalf of their clients in the absence of instructions received ten days prior to the meeting. We expect all other votes to be non-discretionary.

**How do I vote my shares?**

You may vote your shares either by proxy or in person at the Annual Meeting. Shares represented by a properly executed proxy will be voted at the meeting in accordance

with the shareholder's instructions. If no instructions are given, the shares will be voted according to the recommendations of the Board of Directors. Registered shareholders and plan participants may go to [www.edocumentview.com/noc](http://www.edocumentview.com/noc) to view this Proxy Statement and the Annual

Report.

If you hold shares as a record holder there are four ways that you can vote your shares, as discussed below.

**By Internet** Registered shareholders and plan participants may vote on the internet, as well as view the documents, by logging on to [www.envisionreports.com/noc](http://www.envisionreports.com/noc) and following the instructions given.

**By Telephone** Registered shareholder and plan participants may grant a proxy by calling 800-652-VOTE (800-652-8683) (toll-free) with a touch-tone telephone and following the recorded instructions.

**By Mail** Registered shareholders or plan participants must request a paper copy of the proxy materials to receive a proxy card and may vote by marking the voting instructions on the proxy card and following the instructions given for mailing. A paper copy of the proxy materials may be obtained by logging on to [www.envisionreports.com/noc](http://www.envisionreports.com/noc) and following the instructions given.

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**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING** *(continued)*

***In Person*** The methods used to grant a proxy or give voting instructions described above will not affect a registered shareholder's right to attend or vote in person at the Annual Meeting.

If any other matters are properly brought before the meeting, the proxy card gives discretionary authority to the proxyholders named on the card to vote the shares in their best judgment.

**How do I vote my shares if they are held by a bank, broker or other agent?**

Persons who own stock beneficially through a bank, broker or other agent may not vote directly. They will instead need to instruct the record owner as to the voting of their shares using the procedure identified by the bank, broker or other agent. Beneficial owners who hold our common stock in street name through a broker receive voting instruction forms from their broker. Most beneficial owners will be able to provide voting instructions by telephone or on the internet by following the instructions on the form they receive from their broker. Beneficial owners may view this Proxy Statement and the Annual Report on the internet by logging on to [www.edocumentview.com/noc](http://www.edocumentview.com/noc).

A person who beneficially owns shares of our common stock through a bank, broker or other nominee can vote his or her shares in person at the Annual Meeting only if he or she obtains from the bank, broker or other nominee a proxy, often referred to as a legal proxy, to vote those shares, and

presents such proxy to the inspector of election at the meeting together with his or her ballot.

**How do I vote my shares held under a Northrop Grumman savings plan?**

If shares are held on an individual's behalf under any of our savings plans, the proxy will serve to provide confidential instructions to the plan Trustee or Voting Manager who then votes the participant's shares in accordance with the individual's instructions. For those participants who do not return executed proxy cards, the applicable Trustee or Voting Manager will vote their plan shares in the same proportion as shares held under the plan for which voting directions have been received, unless the Employee Retirement Income Security Act (ERISA) requires a different procedure.

Voting instructions from savings plan participants must be received by the plan Trustee or Voting Manager by 11:59 p.m. Eastern Time on May 13, 2012 to be used by the plan Trustee or Voting Manager to determine the votes for plan shares.

**May I revoke my proxy?**

A shareholder who executes a proxy 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 shareholder attending the meeting in person may revoke the proxy by giving notice of revocation to the inspector of election at the meeting or by voting at the meeting.



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**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

Our Board of Directors has nominated thirteen directors for election at the Annual Meeting to hold office for a one-year term until the next annual meeting. Directors will hold office until their successor is elected and takes office, they resign or they are otherwise removed. Each of the thirteen director nominees has consented to serve, and we do not know of any reason why any of them would be unable to serve if elected. If a nominee becomes unavailable or unable to serve before the Annual Meeting (for example, due to serious illness), the Board of Directors may determine to leave the position vacant, reduce the number of authorized directors or designate a substitute nominee. If any nominee becomes unavailable for election to the Board of Directors, an event which is not anticipated, the proxyholders have full

discretion and authority to vote or refrain from voting for any other nominee in accordance with their judgment.

The following pages contain biographical and other information about each of the thirteen nominees. In addition, we have provided information regarding the particular experience, qualifications, attributes and/or skills that led the Board of Directors to conclude that each nominee should serve as a director.

Unless instructed otherwise, the proxyholders will vote the proxies received by them for the election of the thirteen director nominees listed below.

**Nominees for Director**

**WESLEY G. BUSH, 51**

*Chairman, Chief Executive Officer and President, Northrop Grumman Corporation.*

*Director since 2009*

Mr. Wesley G. Bush was elected Chief Executive Officer and President of the Company effective January 1, 2010 and Chairman of the Board of Directors effective July 19, 2011. He has served on the Board of Directors since September 2009. Mr. Bush served as President and Chief Operating Officer from March 2007 through December 2009, as President and Chief Financial Officer from May 2006 through March 2007, and as Corporate Vice President and Chief Financial Officer from March 2005 to May 2006. Following the acquisition of TRW by the Company, he was named Corporate Vice President and President of the Space Technology sector. Mr. Bush joined TRW in 1987 and during his career with that company held various leadership positions including President and CEO of TRW Aeronautical Systems. He is a director of Norfolk Southern Corporation. Mr. Bush is Vice Chairman of the Aerospace Industries Association and also serves on the boards of several non-profit organizations, including the Smithsonian National Air and Space Museum, Conservation International and the Business-Higher Education

Forum. He also serves on the National Infrastructure Advisory Council.

*Key Attributes, Skills and Qualifications*

Mr. Bush has 29 years of experience in the aerospace and defense industry which have included a broad array of management positions. He has held a number of key positions within our Company including Chief Financial Officer, Chief Operating Officer and currently Chairman, CEO and President. Mr. Bush has extensive international business experience. His service on the boards of non-profit organizations which focus on issues involving homeland security, conservation and higher education in science, technology, engineering and mathematics enhance the knowledge of the Board of Directors in these key areas. Mr. Bush is the only member of management who serves on the Board of Directors.

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**PROPOSAL ONE:**

**ELECTION OF DIRECTORS** *(continued)*

**LEWIS W. COLEMAN, 70**

*Lead Independent Director of the Board of Directors, Northrop Grumman Corporation.*

*President and Chief Financial Officer, DreamWorks Animation SKG, a film animation studio.*

*Director since 2001*

*Member of the Compensation Committee and Governance Committee*

Mr. Lewis W. Coleman has been the President of DreamWorks Animation since December 2005 and Chief Financial Officer since March 2007. He has been a director of DreamWorks Animation since 2006. Previously he was the President of the Gordon and Betty Moore Foundation from its founding in 2000 to 2004. Prior to that, Mr. Coleman was employed by Banc of America Securities, formerly known as Montgomery Securities where he was a Senior Managing Director from 1995 to 1998 and Chairman from 1998 to 2000. Before he joined Montgomery Securities, Mr. Coleman was Chairman of Banc of America Securities L.L.C., a subsidiary of Bank of America Corporation in San Francisco, and also served as Vice Chairman of the Board of Directors and Chief Financial Officer for Bank of America and BankAmerica Corp. Before that, Mr. Coleman was head of the World Banking Group, assuming that position after serving as head of capital markets, where he was responsible for all global trading and underwriting activity. He joined the bank in 1986 as Chief Credit Officer for the group. Mr. Coleman spent the previous thirteen years at Wells Fargo Bank where his positions included Head of International Banking, Chief Personnel Officer and Chairman of the Credit Policy Committee. Mr. Coleman previously served as a director of Chiron Corporation and Regal Entertainment.

*Key Attributes, Skills and Qualifications*

Mr. Coleman brings extensive banking and financial experience and has demonstrated his board leadership skills as both our Non-executive Chairman of the Board and our Lead Independent Director. He is also active in several non-profit organizations, which allows him to bring a broad perspective to our Board of Directors on a number of non-financial issues. These non-profit organizations include several environmental groups and The National Academies Board on Science, Technology and Economic Policy, which focuses on issues of trade, tax, human resources, research and development and statistical policy.

**VICTOR H. FAZIO, 69**

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*Senior Advisor, Akin Gump Strauss Hauer & Feld LLP, a law firm.*

*Director since 2000*

*Member of the Audit Committee and Governance Committee (Chair)*

Mr. Victor H. Fazio was named Senior Advisor at Akin Gump Strauss Hauer & Feld LLP in May 2005 after serving as senior partner at Clark & Weinstock since 1999. Prior to that, Mr. Fazio was 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 leadership in the House from 1989 to 1998 including four years as Chair of his Party's Caucus, the third ranking position. 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 the board of directors of various private companies and non-profit organizations including the Ice Energy Corporation, Peyton Street Independent Financial Services Corporation, Energy Future Coalition, the Campaign Finance Institute, the Committee for a Responsible Federal Budget, Center for Strategic Budgetary Assessments, The Information Technology and Innovation Foundation, UC Davis Medical School Advisory Board, UC Davis Foundation and the National Parks Conservation Association.

### *Key Attributes, Skills and Qualifications*

Mr. Fazio's service in Congress brings to our Board of Directors expertise in budgeting, appropriations and national security. He also has public policy experience from running for and serving in public office. As a Senior Advisor for Akin Gump Strauss Hauer & Feld LLP, he has represented clients on a wide variety of public policy matters. His extensive prior board experience with the American Stock Exchange and our Board of Directors, as well as his service as Chair of the Governance Committee, gives him broad-based corporate governance expertise and a deep knowledge of our governance culture and history.

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**PROPOSAL ONE:**

**ELECTION OF DIRECTORS** *(continued)*

**DONALD E. FELSINGER, 64**

*Executive Chairman, Sempra Energy, an energy services holding company.*

*Director since 2007*

*Member of the Compensation Committee (Chair) and Governance Committee*

Mr. Donald E. Felsinger is Executive Chairman of the Board of Directors of Sempra Energy, a position he has held since July 2011. From February 2006 through June 2011, he was Chairman and CEO of Sempra Energy. Prior to that, Mr. Felsinger was President and Chief Operating Officer of Sempra Energy from January 2005 to February 2006 and a member of the Board of Directors, and from 1998 through 2004, he was Group President and Chief Executive Officer of Sempra Global. Prior to the merger that formed Sempra Energy he served as President and Chief Operating Officer of Enova Corporation, the parent company of San Diego Gas & Electric (SDG&E). Prior positions included President and Chief Executive Officer of SDG&E, Executive Vice President of Enova Corporation and Executive Vice President of SDG&E. Mr. Felsinger serves on the board of Archer Daniels Midland and is a member of The Conference Board, the Committee Encouraging Corporate Philanthropy and the USA/Mexico Chamber of Commerce.

*Key Attributes, Skills and Qualifications*

Mr. Felsinger brings extensive experience to our Board of Directors having served as a board member, Chairman and Chief Executive Officer of other Fortune 500 companies. He provides our Board of Directors with his expertise, acquired through leadership roles at Sempra Energy and other energy companies, in mergers and acquisitions, environmental matters, corporate governance, strategic planning, engineering, finance, human resources, compliance, risk management, international business and public affairs. Mr. Felsinger possesses an in-depth knowledge of executive compensation and benefits practices and serves as Chair of the Compensation Committee.

**STEPHEN E. FRANK, 70**

*Retired Chairman, President and Chief Executive Officer, Southern California Edison,*

*an electric utility company.*

*Director since 2005*

*Member of the Audit Committee (Chair) and Governance Committee*

Mr. Stephen E. Frank served as Chairman, President and Chief Executive Officer of Southern California Edison from 1995 until his retirement in January 2002. During this time, he served on the boards of directors of that company and its parent company, Edison International. Prior to joining Southern California Edison in 1995, Mr. Frank was President and Chief Operating Officer of Florida Power and Light Company and was a director of FPL Group, its parent company. He also has served as Executive Vice President and Chief Financial Officer of TRW Inc., as well as Vice President, Controller, and Treasurer of GTE Corporation. His earlier career included financial and sales management positions with U.S. Steel Corporation. Mr. Frank serves on the board of directors of Washington Mutual, Inc., NV Energy Inc., and AEGIS Insurance Services Limited. He served on the board of Intermec, Inc., Puget Energy, Inc. and LNR Property Corporation during the past five years. He also serves as a board member of the Los Angeles Philharmonic Association, the Reno Philharmonic Association and St. Mary's Health Foundation.

*Key Attributes, Skills and Qualifications*

Mr. Frank possesses extensive experience as an executive officer and director of several public companies and brings to our Board of Directors a strong background in finance and operating management in a variety of diversified industries and organizations. He has served in such senior leadership positions as Chairman, Chief Executive Officer, President, Chief Financial Officer and Controller. Mr. Frank holds an MBA in Finance from the University of Michigan and completed the Advanced Management Program at Harvard Business School. Mr. Frank is an audit committee financial expert as defined by the rules and regulations of the SEC and serves as Chair of the Audit Committee.

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**PROPOSAL ONE:**

**ELECTION OF DIRECTORS** *(continued)*

**BRUCE S. GORDON, 66**

*Former President & CEO, NAACP and Retired President, Retail Markets Group, Verizon Communications Inc., a telecommunications company.*

*Director since 2008*

*Member of the Compensation Committee and Policy Committee*

Mr. Bruce S. Gordon served as President and Chief Executive Officer of the National Association for the Advancement of Colored People from June 2005 to March 2007. In 2003, Mr. Gordon retired from Verizon Communications Inc., where he had served as President, Retail Markets Group since 2000. Prior to that, Mr. Gordon served as Group President of the Enterprise Business Unit, President of Consumer Services, Vice President of Marketing and Sales and Vice President of Sales for Bell Atlantic Corporation (Verizon's predecessor). He is a trustee of the U.S. Fund for UNICEF, a member of the Board of Directors of the National Underground Railroad Freedom Center and the Newport Festival Foundation and a member of the Executive Leadership Council. Mr. Gordon is a director of Tyco International Ltd. and CBS Corporation. He currently serves as a diversity consultant to Fortune 500 companies.

*Key Attributes, Skills and Qualifications*

Mr. Gordon brings business leadership skills to our Board of Directors acquired from his experience with corporate and non-profit enterprises. Mr. Gordon possesses strong skills in marketing and human resources. He has led diversity efforts and gained a reputation as a leader and consensus builder. In addition, his service on boards of other large public companies provides our Board of Directors with insight into large company governance best practices.

**MADELEINE A. KLEINER, 60**

*Former Executive Vice President and General Counsel, Hilton Hotels Corporation, a hotel and resort company.*

*Director since 2008*

*Member of the Audit Committee and Governance Committee*

Ms. Madeleine A. Kleiner served as Executive Vice President, General Counsel and Corporate Secretary for Hilton Hotels Corporation from January 2001 until February 2008 when she completed her responsibilities in connection with the sale of the company. From 1999 through 2001, she served as a director of a number of Merrill Lynch mutual funds operating under the Hotchkiss and Wiley name. Ms. Kleiner served as Senior Executive Vice President, Chief Administrative Officer and General Counsel of H.F. Ahmanson & Company and its subsidiary, Home Savings of America, until the company was acquired in 1998, and prior to that was a partner at the law firm of Gibson, Dunn and Crutcher where she advised corporations and their boards primarily in the areas of mergers and acquisitions, corporate governance and securities transactions and compliance. Ms. Kleiner currently serves on the board of directors of Jack in the Box Inc. Ms. Kleiner is a member of the UCLA Medical Center Board of Advisors and a member of the board of the New Village Charter School.

*Key Attributes, Skills and Qualifications*

Ms. Kleiner brings to our Board of Directors expertise in corporate governance, implementation of Sarbanes-Oxley controls, risk management, securities transactions, mergers and acquisitions, human resources, government relations and crisis management acquired through her experience as general counsel overseeing the corporate secretarial function for two public companies, as outside counsel to numerous public companies and through service on another public company board. She also is an audit committee financial expert as defined by SEC rules. Ms. Kleiner's training as a lawyer combined with the experience of being a member of executive management of a number of companies makes her a resource for our Board of Directors in its analysis of a variety of business issues.



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**PROPOSAL ONE:**

**ELECTION OF DIRECTORS** *(continued)*

**KARL J. KRAPEK, 63**

*Retired President and Chief Operating Officer, United Technologies Corporation, an aerospace and building systems company.*

*Director since 2008*

*Member of the Compensation Committee and Policy Committee*

Mr. Karl J. Krapek retired as President and Chief Operating Officer of United Technologies Corporation in January 2002. At United Technologies Corporation, he served for 20 years in various management positions, including Executive Vice President and director in 1997; President and Chief Executive Officer of Pratt & Whitney in 1992; Chairman, President and Chief Executive Officer of Carrier Corporation in 1990; and President of Otis Elevator Company in 1989. Prior to joining United Technologies Corporation, he was Manager of Car Assembly Operations for the Pontiac Motor Car Division of General Motors Corporation. In 2002, Mr. Krapek became a co-founder of The Keystone Companies, which develops residential and commercial real estate. He chairs the Strategic Planning Committee for the Board of Directors at St. Francis Care, Inc. Mr. Krapek is Lead Independent Director of The Connecticut Bank and Trust Company, a director of Prudential Financial, Inc. and a director of Visteon Corporation. He was a director of Delta Airlines Inc., Lucent Technologies and Alcatel Lucent during the past five years.

*Key Attributes, Skills and Qualifications*

Mr. Krapek brings industry experience, leadership skills and public company board experience to our Board of Directors. He has deep operational experience in aerospace and defense, domestic and international business operations and technology, and lean manufacturing and competitive excellence. Mr. Krapek also excels in strategic planning and performance improvement. He holds leadership positions at several non-profit charitable and educational organizations.

**RICHARD B. MYERS, 70**

*General, United States Air Force (Ret.) and Former Chairman of the Joint Chiefs of Staff.*

*Director since 2006*

*Member of the Policy Committee (Chair) and Compensation Committee*

General Richard B. Myers retired from his position as the fifteenth Chairman of the Joint Chiefs of Staff, the U.S. military's highest ranking officer, in September 2005 after serving in that position for four years. In this capacity, he served as the principal military advisor to the President, the Secretary of Defense, and the National Security Council. Prior to becoming Chairman, he served as Vice Chairman of the Joint Chiefs of Staff from March 2000 to September 2001. As the Vice Chairman, General Myers served as the Chairman of the Joint Requirements Oversight Council, Vice Chairman of the Defense Acquisition Board, and as a member of the National Security Council Deputies Committee and the Nuclear Weapons Council. During his military career, General Myers' commands included Commander in Chief, North American Aerospace Defense Command and U.S. Space Command; Commander, Air Force Space Command; Commander Pacific Air Forces; and Commander of U.S. Forces Japan and 5th Air Force at Yokota Air Base, Japan. General Myers is a director of Deere & Company, United Technologies Corporation, and Aon Corporation. He is Foundation Professor of Military History and Leadership at Kansas State University and occupies the Colin L. Powell Chair for National Security Ethics, Leadership and Character at the National Defense University.

*Key Attributes, Skills and Qualifications*

During his extensive career as a senior military officer and Chairman of the Joint Chiefs of Staff, General Myers has held leadership positions at the highest levels of the United States government and armed forces. He possesses a deep understanding of crisis management, and is a leading expert on national security and global geo-political issues. He has extensive experience with Department of Defense operational requirements and is able to provide our Board of Directors with advice on issues related to the intelligence community. General Myers is a recipient of the Presidential Medal of Freedom and serves on boards of several large public companies.

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**PROPOSAL ONE:**

**ELECTION OF DIRECTORS** *(continued)*

**AULANA L. PETERS, 70**

*Retired Partner, Gibson, Dunn & Crutcher, a law firm.*

*Director since 1992*

*Member of the Audit Committee and Governance Committee*

Ms. 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 2000. From 1984 to 1988, she served as a Commissioner of the Securities and Exchange Commission. From 2001 to 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, the International Public Interest Oversight Board, and the Board of Trustees, Mayo Clinic. Ms. Peters is a director of 3M Company and Deere & Company. She served on the board of Merrill Lynch & Co. during the past five years.

*Key Attributes, Skills and Qualifications*

Ms. Peters served as a Commissioner of the SEC and as a partner in a major law firm. She brings to our Board of Directors extensive public board experience, as well as public accounting and audit committee expertise. Ms. Peters' memberships on the International Public Interest Oversight Board for Auditing and Professional Ethics and the U.S. Comptroller General Accountability Advisory Panel give our Board of Directors access to thought leadership in auditing, ethics and professional standards. Ms. Peters has authored numerous articles on corporate governance and Sarbanes-Oxley compliance and is an audit committee financial expert as defined by SEC rules.

**GARY ROUGHEAD, 60**

*Admiral, United States Navy (Ret.) and 29<sup>th</sup> Chief of Naval Operations.*

*Director since 2012*

*Member of the Audit Committee and Policy Committee*

Admiral Gary Roughead retired from his position as the 29<sup>th</sup> Chief of Naval Operations in September 2011, after serving in that position for four years. The Chief of Naval Operations is the senior military position in the United States Navy. As Chief of Naval Operations, Admiral Roughead stabilized and accelerated ship and aircraft procurement plans and the Navy's capability and capacity in ballistic missile defense and unmanned air and underwater systems. He restructured the Navy to address the challenges and opportunities in cyber operations. Prior to becoming the Chief of Naval Operations, he held six operational commands (including commanding both the Atlantic and Pacific Fleets). Admiral Roughead is a Distinguished Fellow at the Hoover Institution. He is also a member of the Council on Foreign Relations and is a director of Project HOPE and a trustee of CNA, a not-for-profit research and analysis organization, and the Woods Hole Oceanographic Institution.

*Key Attributes, Skills and Qualifications*

Admiral Roughead has had an extensive career as a senior military officer with the United States Navy. He has held numerous operational commands, as well as leadership positions within the United States Navy. Admiral Roughead brings to our Board of Directors expertise in national security, information warfare and cyber operations. He also brings to the Board of Directors experience in leadership, crisis management and fiscal and procurement matters.

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**PROPOSAL ONE:**

**ELECTION OF DIRECTORS** *(continued)*

**THOMAS M. SCHOEWE, 59**

*Former Executive Vice President and Chief Financial Officer, Wal-Mart Stores, Inc., an operator of retail stores.*

*Director since 2011*

*Member of the Audit Committee and Policy Committee*

Mr. Thomas M. Schoewe was Executive Vice President and Chief Financial Officer of Wal-Mart Stores Inc. from 2000 to 2010. Prior to his employment with Wal-Mart, he held several roles at the Black and Decker Corporation, including serving as Senior Vice President and Chief Financial Officer from 1996 to 1999, Vice President and Chief Financial Officer from 1993 to 1999, Vice President of Finance from 1989 to 1993 and Vice President of Business Planning and Analysis from 1986 to 1989. Before joining Black and Decker, Mr. Schoewe worked for Beatrice Companies, where he was Chief Financial Officer and Controller of one of its subsidiaries, Beatrice Consumer Durables Inc. Mr. Schoewe serves on the Boards of Directors of General Motors Corporation, Kohlberg Kravis Roberts and Company and PulteGroup Inc.

*Key Attributes, Skills and Qualifications*

Mr. Schoewe brings extensive financial experience to our Board of Directors, acquired through positions held as the Chief Financial Officer of large public companies, as well as expertise in implementation of Sarbanes-Oxley controls, risk management and mergers and acquisitions. Mr. Schoewe is an audit committee financial expert, as defined by SEC rules, and brings to the board his extensive experience as a member of the audit committee of other public companies. Mr. Schoewe also brings extensive international experience to our Board of Directors as a result of his service as an executive of large public companies with substantial international operations.

**KEVIN W. SHARER, 64**

*Chairman, Chief Executive Officer and President, Amgen Inc., a biotechnology company.*

*Director since 2003*

*Member of the Policy Committee*

Mr. Kevin W. Sharer has served as Chairman of the Board of Amgen since January 2001 and as Chief Executive Officer since May 2000. Mr. Sharer joined Amgen in 1992 as President, Chief Operating Officer and member of the board of directors. Before joining Amgen, Mr. Sharer was Executive Vice President and President of the Business Markets Division at MCI Communications. Prior to MCI, he served in a variety of executive capacities at General Electric and was a consultant for McKinsey & Company. He is Chairman of the board of trustees of the Los Angeles County Museum of Natural History and is a member of the U.S. Naval Academy Foundation Board. Mr. Sharer also serves on the board of directors of Chevron Corporation.

*Key Attributes, Skills and Qualifications*

Mr. Sharer's position as the Chief Executive Officer of a large public company has enabled him to develop significant expertise in strategy, marketing, organization, international and domestic business and crisis management. He brings to our Board of Directors extensive knowledge of human resources and compensation issues as well as experience in dealing with regulatory agencies. Mr. Sharer also served as an officer in the U.S. Navy. He holds board leadership positions at large public companies and non-profit organizations.

**Vote Required**

To be elected, a nominee must receive more votes cast for than votes cast against his or her election. Abstentions and broker non-votes will have no effect on this proposal. If a nominee is not re-elected, he or she will remain in office until a successor is elected or until his or her earlier resignation or removal.

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

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### **CORPORATE GOVERNANCE**

#### **Overview**

The following sections provide an overview of our corporate governance policies and procedures and include a description of the role of the Board of Directors, our director nomination process and the independence criteria we use in selecting directors, among other items.

The primary responsibility of the Board of Directors is to foster our long-term success representing the interests of our shareholders. We believe that strong ethical behavior is essential to achieve top performance. The Board of Directors has adopted Principles of Corporate Governance and Standards of Business Conduct that reinforce our values and strong commitment to ethics and integrity, promoting responsible business practices and good corporate citizenship.

The Principles of Corporate Governance outline the role and responsibilities of our Board of Directors, set forth additional independence requirements for our directors and provide guidelines for Board leadership and Board and committee membership, among other items. Further to align our directors' interests with those of our shareholders, our Principles of Corporate Governance require our directors to have a direct and material investment in our common stock. The Board of Directors reviews these principles at least annually and considers opportunities for improvement and modification based on changed circumstances.

Our Standards of Business Conduct apply to our Board of Directors, officers and all employees. The Standards of Business Conduct support our commitment to the highest standards of ethics and integrity in all aspects of our business. The Standards of Business Conduct require ethical conduct in our relationships with customers and suppliers, reinforce the need for avoiding actual or apparent conflicts of interest and require the responsible use of Company resources. The Standards of Business Conduct require strict adherence to all laws and regulations applicable to the conduct of our domestic and international businesses. As part of our commitment to ethics and integrity, our Standards of Business Conduct encourage open communication with Company ethics officers (which may be done on an anonymous basis) if an employee seeks guidance regarding business conduct or suspects an actual or apparent violation of the Standards of Business Conduct in good faith.

#### **Role of the Board and Director Responsibility**

Our day-to-day business and affairs are conducted by our employees and officers, under the direction of our Chairman and Chief Executive Officer and with the oversight of the Board of Directors. In discharging their oversight duties, the

Board of Directors regularly consults with management. Directors also communicate freely amongst themselves both at and apart from formal meetings.

The Board of Directors' general oversight responsibilities include, but are not limited to the following:

- review and monitor our long-range business strategies and significant corporate actions;
- oversee and evaluate management's performance;
- oversee senior executive succession planning;
- oversee policies to maintain our integrity and ethics, including the integrity of our financial statements, compliance with law and ethics, and the integrity of our relationships with customers and suppliers; and

i provide advice and counsel to management.

## **Board Leadership**

### *Chairperson of the Board*

Our Bylaws establish the position of Chairperson of the Board. The Chairperson of the Board will generally be either an independent director or the Chief Executive Officer. Prior to July 19, 2011, Mr. Coleman served as the Non-Executive Chairman of the Board of Directors. On July 19, 2011, Mr. Bush, our Chief Executive Officer and President, was elected by the Board of Directors to serve as its Chairman, and Mr. Coleman was designated as Lead Independent Director.

The Board of Directors believes that it is in the best interests of the Company and our shareholders to have flexibility in determining the most effective leadership structure to serve the interests of the Company and our shareholders. Our Governance Committee and our Board of Directors considered a number of factors to determine who should serve as Chairperson of the Board, including the experience and management responsibilities that Mr. Bush has as both Chief Executive Officer and President, the current environment, and what will best serve the interests of the Company and our shareholders at this time. The Board concluded that having the CEO also serve as Chairman best positions the Company to be innovative, compete successfully and advance shareholder interests. As discussed further below, the Board's designation of a Lead Independent Director demonstrates its continuing commitment to strong corporate governance and Board independence.

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**CORPORATE GOVERNANCE** *(continued)*

Among the duties and responsibilities of the Chairperson of the Board, he:

- prepares the agendas of the Board of Directors meetings and assists the chairpersons of each standing committee with preparation of agendas for the respective committee meetings, taking into account the requests of other board and committee members;
- sets an appropriate schedule for Board of Directors meetings to assure that there is sufficient time for discussion of all agenda items;
- along with the Chairperson of the Governance Committee, interviews all candidates for the Board of Directors and makes recommendations to the Governance Committee and the Board of Directors;
- advises on the quality, quantity and timeliness of the information sent to the Board of Directors; and
- has the authority to call meetings of the independent directors.

***Lead Independent Director***

As discussed above, on July 19, 2011, Mr. Coleman was designated to serve as Lead Independent Director of the Board of Directors. In accordance with our Principles of Corporate Governance, if at any time the Chairperson of the Board is not independent, the independent directors will designate from among them a Lead Independent Director. Among the duties of the Lead Independent Director, he:

- presides at meetings of the Board of Directors at which the Chairperson of the Board is not present, including executive sessions of the independent directors;
- serves as liaison between the Chairperson of the Board and the independent directors;
- provides the Chairperson of the Board with input as to the preparation of the agendas of the Board of Directors and committee meetings, taking into account the requests of the other committee and Board members;
- advises the Chairperson of the Board on the appropriate schedule of Board of Directors meetings to ensure that there is sufficient time for discussion of all agenda items;
- advises on the quality, quantity and timeliness of the information sent to the Board of Directors;
- has the authority to call meetings of the independent directors;

- | interviews, along with the Chairperson of the Board and the Chairperson of the Governance Committee, all candidates for the Board of Directors and makes recommendations to the Governance Committee and the Board of Directors; and
- | if requested by major shareholders, ensures that he is available for consultation and direct communication.

#### **Board's Role in Risk Oversight**

The Board of Directors as a whole is responsible for risk oversight. The Audit Committee assists the Board of Directors in this role by reviewing and reporting to the full Board of Directors on our guidelines and policies with respect to risk assessment and risk management, including insurance risk management, major financial risk exposures, and the steps that management has taken to monitor and control such exposures. The Audit Committee annually receives a report from the Chief Financial Officer addressing our risk management process and system, the nature of the material risks the Company faces and how the Company responds to and mitigates these risks. The Audit Committee also receives periodic reports from our General Counsel and from our Chief Compliance Officer on the Company's compliance program.

Our risk management structure also includes an ongoing effort to assess and analyze the most likely areas of future risk for our Company. The Audit Committee periodically reports to the Board of Directors on matters concerning risk management, including the significant risks our Company faces and the processes, policies and procedures we employ to monitor and control such risks.

#### **Director Independence**

The Board of Directors has established an objective that at least 75% of the directors be independent directors. The Board of Directors annually determines the independence of directors based on a review by the directors and the Governance Committee. No director is considered independent unless the Board of Directors has determined that he or she meets the requirements for independence under the applicable rules of the NYSE and the SEC and has no material relationship with our Company, either directly or as a partner, shareholder, or officer of an organization that has a material relationship with our Company, other than as a director. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others.

Our Principles of Corporate Governance provide that a director may be deemed not to have a material relationship with our Company if he or she:

- | has not within the prior three years been a director, executive officer or trustee of a charitable organization that received annual contributions from our Company exceeding the greater of \$1 million, or 2% of the charitable organization's annual gross revenues, where the gifts were not normal matching charitable gifts, did not go through normal corporate charitable donation approval processes or were made on behalf of a director;

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i has not within the prior three years been employed by, a partner in or otherwise affiliated with any law firm or investment bank retained by the Company in which the director's compensation was contingent on the services performed for our Company or in which the director personally performed services for our Company and the annual fees we paid during the preceding fiscal year did not exceed the greater of \$1 million or 2% of the gross annual revenues of such firm; and

i has not within the prior three years owned, and has no immediate family member who owned, either directly or indirectly as a partner, shareholder or officer of another company, more than 5% of the equity of an organization that has a business relationship with (including significant purchasers of goods or services), or more than 5% ownership in, our Company.

In February 2012, the Board of Directors and the Governance Committee reviewed directors' responses to a questionnaire asking about their and their immediate family members' relationships with our Company and other potential conflicts of interest, as well as material provided by management related to transactions, relationships, or arrangements between our Company and the directors or parties related to the directors. The Board of Directors considered that Mr. Felsing, General Myers and Ms. Peters serve as members of the boards of for-profit organizations to which we have made payments in the usual course of our business and that each individual has no other relationship with those entities other than the role of director (other than Mr. Felsing who serves as Executive Chairman of Sempra Energy to which we made immaterial payments in the usual course of business). The Board of Directors considered that Mr. Fazio, Mr. Gordon, Ms. Kleiner, General Myers, Mr. Felsing and Mr. Sharer serve as members of the boards of charitable and other non-profit organizations to which we have made contributions in the usual course of our charitable contributions program or in the usual course of business. In all cases, our annual contribution to these entities did not exceed the greater of \$1,000,000 or 2% of the charitable and non-profit organization's annual gross revenue. In addition, Mr. Sharer's daughter is employed by us in a non-executive position, and her compensation is below the threshold required for disclosure by the SEC and was determined by the Board of Directors not to interfere with Mr. Sharer's independence.

The Governance Committee determined that all twelve non-employee directors are independent. All of the members of the Audit, Compensation, Governance, and Policy Committees are independent. The Governance Committee reported its conclusion to the Board of Directors, and the Board of Directors then considered each director individually

and, in applying the standards described above and considering the facts listed above concerning certain of the directors, determined that none of the twelve non-employee directors has had during the last three years any material relationship with our Company that would compromise his or her independence.

Accordingly, the Board of Directors affirmatively determined that all of the directors, except Mr. Bush, our Chairman, Chief Executive Officer and President, are independent. The independent directors constitute approximately 92% of the members of our Board of Directors.

**Director Nomination Process**

The Governance Committee identifies and evaluates director candidates and may employ a third party search firm to assist in this process. Board members also suggest director candidates to the Governance Committee. In addition, the Governance Committee will consider shareholder nominees if they have been nominated in accordance with our shareholder nominations process under our Bylaws. The shareholder recommendation must be addressed to the Governance Committee in care of the Corporate Secretary. The Governance Committee will evaluate candidates recommended by shareholders in the same manner as all other candidates brought to the attention of the Governance Committee.

The Governance Committee carefully considers all candidates on the basis of the candidate's background and experience, consistent with the criteria set forth in the Principles of Corporate Governance, and recommends to the Board of Directors the nominees for election. In making its selection, the Governance Committee bears in mind that the foremost responsibility of a director is to represent the interests of our shareholders as a whole. The activities and associations of candidates are reviewed for any legal impediment, conflict of interest or other consideration that might prevent or interfere with service on our Board of Directors. In evaluating candidates, the Governance Committee considers the personal integrity and the professional reputation of the individual as well as the education, professional background and particular skills and experience most beneficial to service on the Board of Directors. The Governance Committee also evaluates whether a director candidate is willing to submit to a background check necessary for obtaining a top secret clearance, and whether a director candidate has timely obtained a top secret clearance.

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As set forth in the Governance Committee Charter, the Governance Committee is responsible for establishing the criteria for Board membership. The Governance Committee

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### **CORPORATE GOVERNANCE** *(continued)*

includes diversity as a key criterion for board composition. While we do not have a formal policy outlining the diversity standards to be considered when evaluating director candidates, our objective is to foster diversity of thought on our Board of Directors. To accomplish that objective, the Governance Committee seeks to achieve diversity including race, gender and national origin as well as differences in perspective, professional experience, education, skill and other qualities that contribute to our Board of Directors. The Governance Committee considers diversity amongst other important criteria for board membership and regularly monitors the composition of the Board of Directors with respect to diversity. We have established a number of programs and initiatives to help further diversity and inclusion throughout our Company.

In accordance with our Amended and Restated Bylaws and Restated Certificate of Incorporation, directors are elected by the shareholders for a one-year term expiring at the Annual Meeting of Shareholders following their election. Generally, in order to be elected or re-elected to the Board of Directors, a director nominee must receive more votes cast for rather than against his or her election or re-election unless one or more shareholders provide notice of an intention to nominate one or more candidates to compete with the Board of Directors nominees in a director election. Between annual meetings of the shareholders, the Board of Directors has the authority, under our Bylaws and Certificate of Incorporation, to fill any vacant positions.

#### **Effect of a Failure by an Incumbent Director to Receive the Required Vote for Re-Election**

Following the annual meeting at which the directors are elected, each director is required to tender a resignation that will be effective upon (i) the failure to receive the required vote at any future meeting at which such director faces re-election and (ii) the Board of Directors acceptance of such resignation. If an incumbent director fails to receive the required vote for re-election, the Governance Committee will consider whether the Board of Directors should accept the director's resignation and will submit a recommendation for prompt consideration by the Board of Directors. The Board of Directors expects the director whose resignation is under consideration to abstain from participating in any decision regarding that resignation and will also request that all non-independent directors abstain from participating in the decision regarding the resignation unless the Board of

Directors determines that the participation of one or more such directors is necessary under the circumstances. The Governance Committee and the Board of Directors may consider any factor they deem relevant in deciding whether to accept a resignation, including, without limitation, any harm to our Company that may result from accepting the resignation, the underlying reasons for the action at issue, and whether action in lieu of accepting the resignation would address the underlying reasons.

The Board of Directors will decide whether to accept or reject a resignation within 90 days, unless the Board of Directors determines that compelling circumstances require additional time.

#### **Board Membership**

All new directors receive an orientation that is individually tailored, taking into account the director's experience, background, education and committee assignments. This orientation includes one-on-one meetings with senior management and written materials about our Company and our various products and operations, key Company policies and procedures (including our Standards of Business Conduct) and duties and responsibilities under applicable law. We also maintain a list of continuing director education opportunities, and all directors are encouraged to periodically attend, at our expense, director continuing education programs offered by various organizations.

Directors may not serve on more than three other boards of publicly traded companies in addition to our Board of Directors without the approval of the Chairperson of the Governance Committee. A director who is a full-time employee of our Company may not serve on the board of more than two other public companies unless approved by the Board of Directors. When a director's principal occupation or business association changes substantially during his or her tenure as a director, the Board of Directors expects the director to tender his or her resignation for consideration by the Governance Committee, which subsequently will recommend to the Board of Directors the action, if any, to be taken with respect to the resignation. We have a retirement policy whereby a director will retire at the Annual Meeting of Shareholders following his or her 72nd birthday.

#### **Board Meetings and Executive Sessions**

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Our Board of Directors meets no less than on a quarterly basis. Special meetings of the Board of Directors may be called from time to time as appropriate. On an annual basis, the Board of Directors holds an extended meeting to review our long-term strategy.

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### **CORPORATE GOVERNANCE** *(continued)*

The Board of Directors holds its meetings at Company locations other than our corporate headquarters on a regular basis to provide the directors with a first-hand view of the business at that location and an opportunity to interact with local management.

The non-employee directors meet in executive session during each in-person Board of Directors meeting and on other occasions as needed. The non-executive chairperson of the board or the lead independent director presides over the executive sessions. The Audit Committee meets in executive session at each in-person Audit Committee meeting, and regularly requests separate executive sessions with representatives from the independent registered public accounting firm, and our senior management, including our Chief Financial Officer, General Counsel and our Vice President, Internal Audit. The Compensation Committee also meets in executive session at regular Compensation Committee meetings, and regularly requests the Compensation Committee's compensation consultant report to the Compensation Committee in executive session. The Governance and Policy Committees may also meet in executive session as they deem necessary.

The Chairperson of the Board, in consultation with the Lead Independent Director, if any, and committee chairpersons, establishes the agenda for each Board of Directors meeting. Any other member of the Board of Directors is free to suggest the addition of any other item(s). The chairpersons of the committees coordinate committee meeting agendas with appropriate members of management. Other committee members are free to suggest additional agenda items.

#### **Evaluation and Succession Planning**

Every year the Board of Directors conducts an assessment of its performance and at the conclusion of the evaluation process discusses its results. The Board of Directors also considers the performance of each individual director on a regular basis.

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

- annually to evaluate the chief executive officer based on a specific set of performance objectives;
- annually to provide the Compensation Committee with an assessment of persons considered potential successors to certain management positions, and the Compensation Committee reports and discusses the results of these reviews with the Board of Directors; and
- to support continuity of top leadership, including chief executive officer succession.

#### **Departure and Election of Directors in 2011 and 2012**

During 2011, the following changes occurred with respect to the composition of our Board of Directors:

On March 21, 2011, in connection with the spin-off of Huntington Ingalls Industries, Inc. ( **HII** ), Thomas B. Fargo resigned from the Board of Directors in order to serve on the board of directors of HII;

On July 19, 2011, as discussed above, Wesley G. Bush was elected Chairman of the Board of Directors and Lewis W. Coleman was designated to serve as the Lead Independent Director of the Board of Directors;

On August 17, 2011, Thomas M. Schoewe was elected to the Board of Directors; and

On February 14, 2012, Admiral Gary Roughead was elected to the Board of Directors.

#### **Communications with the Board of Directors**

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Any interested person may communicate with any of our directors, our Board of Directors as a group, our non-employee directors as a group or our Lead Independent Director of the Board through the Corporate Secretary by writing to the following address: ***Office of the Corporate Secretary, Northrop Grumman Corporation, 2980 Fairview Park Drive, Falls Church, Virginia 22042***. The Corporate Secretary will forward all correspondence to the director or directors to whom it is addressed, except for job inquiries, surveys, business solicitations or advertisements, and other inappropriate material. The Corporate Secretary may forward certain correspondence elsewhere within our Company for review and possible response.

Interested persons may report any concerns relating to accounting matters, internal accounting controls or auditing matters to non-management directors confidentially or anonymously by writing directly to the Chairperson of the Audit Committee, ***Northrop Grumman Board of Directors c/o Corporate Ethics Office, 2980 Fairview Park Drive, Falls Church, Virginia 22042***.

### **Available Information**

You may obtain a copy of the following corporate governance materials on the Investor Relations section of our website ([www.northropgrumman.com](http://www.northropgrumman.com)) under Corporate Governance:

- i Principles of Corporate Governance;
  
- i Standards of Business Conduct;

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**Table of Contents****CORPORATE GOVERNANCE** *(continued)*

i Policy and Procedure Regarding Company Transactions with Related Persons; and

i Board Committee Charters.

Copies of these documents are also available without charge to any shareholder upon written request to the Corporate Secretary, *Northrop Grumman Corporation, 2980 Fairview Park Drive, Falls Church, VA 22042*.

We will disclose amendments to provisions of our Standards of Business Conduct by posting amendments on our website. In addition, any waivers of the provisions of our Standards of Business Conduct that apply to our directors or executive officers will be disclosed in a Current Report on Form 8-K.

**Committees of the Board of Directors**

The Board of Directors has four standing committees: the Audit Committee, the Compensation Committee, the Governance Committee and the Policy Committee. The membership of these committees is usually determined at the organizational meeting of the Board of Directors held in conjunction with the Annual Meeting of Shareholders. All the committees are composed entirely of independent directors. The primary responsibilities of each of the committees are described below, together with a table listing the membership and chairperson of each committee as of the date of this Proxy Statement.

Director	Board	Audit	Compensation	Governance	Policy
Wesley G. Bush	Chair				
Lewis W. Coleman					
Victor H. Fazio				Chair	
Donald E. Felsing			Chair		
Stephen E. Frank		Chair			
Bruce S. Gordon					
Madeleine A. Kleiner					
Karl J. Krapek					
Richard B. Myers					Chair
Aulana L. Peters					
Gary Roughead					
Thomas M. Schoewe					
Kevin W. Sharer					

***Audit Committee***

The Audit Committee meets periodically with management and with both our independent registered public accounting firm and our internal audit management to review audit results, risk management and the adequacy of, and compliance with, our system of internal controls.

The Audit Committee's responsibilities include, among other things:

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- i appoint, subject to shareholder ratification at each Annual Meeting of Shareholders, retain, oversee, evaluate and terminate, if necessary, our independent auditor;
  
- i review and pre-approve each service and related fees considered to be auditing services and permitted non-audit services to be provided by our independent auditor pursuant to pre-approval policies and procedures established by the Audit Committee;
  
- i meet with the independent auditor to review, among other things, all critical accounting policies, all material alternative accounting treatments discussed with management, the ramifications of the use of such treatments and the independent auditor's preferred treatment, and all material written communications with management, including any reports or management letters on significant deficiencies and material weaknesses in internal control over financial reporting, any schedule of unadjusted differences, as well as the results of the audit or review and any opinion or report, which the independent auditor proposes to render in connection with our financial statements;

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**CORPORATE GOVERNANCE** *(continued)*

- review with our independent auditor the performance and conduct of the audit, any restrictions imposed on the scope of the audit or access to requested information, and any significant disagreements with management;
- review with our independent auditor and internal auditors the scope and plan of their respective audits and degree of coordination of their plans and discuss with the independent auditor the responsibilities and staffing of the internal audit function;
- approve the selection, removal and annual compensation of the Vice President, Internal Audit;
- oversee the internal audit program, including advising on leadership of the internal audit department and reviewing significant issues raised by the internal audit function and, as appropriate, management's actions for remediation as well as any other matters the Audit Committee may deem appropriate;
- establish and periodically review Company hiring policies for employees or former employees of our independent auditor;
- prior to filing with the SEC our annual report on Form 10-K and our quarterly reports on Form 10-Q, meet, review and discuss with management, the internal auditors and our independent auditor the financial statements included in such report, our disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, material issues regarding our critical accounting policies and financial statement presentations, and management's assessment of, and report on, the effectiveness of our internal control over financial reporting;
- determine whether the audited financial statements should be included in our annual report on Form 10-K;
- review and discuss with management and the independent auditor our earnings press releases and included financial information;
- review the disclosures by our chief executive officer and chief financial officer regarding the certifications required in each annual or quarterly report filed with the SEC; and
- establish, periodically review and discuss with management procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting control over financial reporting or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The responsibilities of the Audit Committee are more fully described in the Audit Committee Charter. The Audit Committee and the Board of Directors review the charter on an annual basis and modify it as appropriate. The Audit Committee charter can be found on our website ([www.northropgrumman.com](http://www.northropgrumman.com)).

The Board of Directors has determined that all members of the Audit Committee are independent and financially literate. Further, the Board of Directors has determined that Mr. Frank, Ms. Kleiner, Ms. Peters and Mr. Schoewe possess accounting or related financial management expertise within the meaning of the New York Stock Exchange listing standards and that each qualifies as an audit committee financial expert as defined by SEC rules. See Board Meetings and Executive Sessions section above for a discussion of the Audit Committee's meetings in executive sessions.

Every year, the Audit Committee performs a self-evaluation to identify enhancements to future programs and processes. The Audit Committee held thirteen meetings in 2011.

***Compensation Committee***

The Compensation Committee administers and provides strategic direction for our executive compensation and benefit programs and oversees our management development and succession processes. The Compensation Committee oversees our compensation and benefit programs and actions that affect the NEOs as well as all other elected officers.

The Compensation Committee's responsibilities include, among other things:

- review at least annually with management our approach for our compensation and benefits program for our elected officers;
- establish annual and long-term performance objectives for our elected officers who are named in our annual proxy statement and/or who are members of the Corporate Policy Council ( CPC );
- evaluate the performance of elected officers who are named executive officers and/or members of the CPC against their respective goals;
- recommend the chief executive officer's compensation for approval to the independent members of the Board of Directors;
- review and approve the compensation of all of our other elected officers who are named executive officers and/or members of the CPC;

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**CORPORATE GOVERNANCE** *(continued)*

- establish stock ownership guidelines covering elected officers and review ownership levels relative to the guidelines on an annual basis;
- review and recommend to the independent members of the Board of Directors direct and indirect compensation for non-employee directors, including stock ownership guidelines;
- oversee strategic planning and design of our employee benefit plans; and
- review and discuss with management the proposed annual compensation discussion and analysis and recommend to the Board of Directors whether it should be included in the annual proxy statement or other applicable filing with the SEC.

The Compensation Committee also has the authority to appoint and dismiss advisors and compensation consultants and approve their compensation. These advisors and compensation consultants report directly to the Compensation Committee.

The Compensation Committee Charter more fully describes the responsibilities of the Compensation Committee and its oversight of the various compensation programs. The charter allows the Compensation Committee to delegate its authority to a subcommittee. The Compensation Committee and the Board of Directors review the charter on an annual basis and modify it as needed. The Compensation Committee charter can be found on our website ([www.northropgrumman.com](http://www.northropgrumman.com)).

Every year the Compensation Committee performs a self-evaluation to identify methodologies for improving future programs and processes. The Compensation Committee held nine meetings in 2011.

***Governance Committee***

The Governance Committee assists the Board of Directors in identifying qualified potential candidates to serve on the Board of Directors and its committees, coordinates the process for the Board of Directors to evaluate its performance, and makes recommendations to the Board of Directors on various matters of corporate governance. The Governance Committee also reviews and recommends action to the Board of Directors on matters concerning transactions with related persons.

The Governance Committee's responsibilities also include, among other things:

- regularly review our corporate governance policies and practices and recommend proposed changes to the Board of Directors for approval;
- review our charter and bylaws with management no less than annually and recommend any proposed changes to the Board of Directors for approval;
- review our corporate governance principles and recommend any proposed changes to the Board of Directors for approval;
- review and make recommendations to the Board of Directors with respect to: the criteria for board membership, including among other things, diversity, experience and integrity, the general responsibilities and functions of the Board of Directors and its members, and the organization, structure, size and composition of the Board of Directors and its committees;

- i review, at least annually, the standards to be applied by the Board of Directors in making the determinations as to whether a director shall be deemed an independent director and recommend to the Board of Directors any appropriate modifications;
- i identify individuals who are qualified to serve as members of the Board of Directors pursuant to our corporate governance principles and provide an assessment of whether each such individual would be an independent director;
- i recommend to the Board of Directors nominees for election at each annual meeting or special meeting of shareholders where directors are to be elected;
- i identify committee member qualifications and recommend to the Board of Directors appropriate committee member appointments; and
- i develop and recommend to the Board of Directors an annual self-evaluation process for the Board of Directors and each of its committees.

The responsibilities of the Governance Committee are more fully described in the Governance Committee Charter. The charter allows the Governance Committee to delegate its authority to a subcommittee. The Governance Committee and the Board of Directors review the charter on an annual basis and modify it as needed. The Governance Committee charter can be found on the Company's website ([www.northropgrumman.com](http://www.northropgrumman.com)).

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### **CORPORATE GOVERNANCE** *(continued)*

Every year the Governance Committee performs a self-evaluation to identify methodologies for improving future programs and processes. The Governance Committee held seven meetings in 2011.

#### ***Policy Committee***

The Policy Committee assists the Board of Directors in identifying, evaluating and monitoring global security, political and social issues and trends and their impact on our business activities and performance.

The Policy Committee's responsibilities include, among other things:

- identify and evaluate global security, political and social issues and trends that could affect our business activities and performance;
- review, monitor and provide recommendations regarding our ethics and corporate responsibility programs and policies, including our Standards of Business Conduct;
- review our public relations and advertising strategy and the manner in which we conduct our public relations activities;
- review and monitor our government relations strategy and the manner in which we conduct our government relations activities, including the governance and compliance of the political action committees;
- review and monitor our policies and practices with respect to environmental matters, health and safety matters, community relations and charitable organizations (including contributions) and activities; and
- review and make recommendations to the Board of Directors regarding shareholder proposals relating to government relations (including political contribution activities), corporate responsibility and public interest matters.

The responsibilities of the Policy Committee are more fully described in the Policy Committee Charter. The Policy Committee and the Board of Directors review the charter on an annual basis and modify it as needed. The Policy Committee charter can be found on the Company's website ([www.northropgrumman.com](http://www.northropgrumman.com)).

Every year the Policy Committee performs a self-evaluation to identify methodologies for improving future programs and processes. The Policy Committee held four meetings in 2011.

#### **Attendance at Board of Directors and Committee Meetings and the Annual Meeting**

During 2011, the Board of Directors held 10 meetings which included five telephonic meetings. Each of the twelve current directors serving in 2011 attended at least 97% of the total number of board and committee meetings he or she was eligible to attend. Board members are expected to attend the Annual Meeting of Shareholders except where the failure to attend is due to unavoidable circumstances. All members of the Board of Directors in May 2011 attended the 2011 Annual Meeting.

**Table of Contents****COMPENSATION OF DIRECTORS****Director Compensation**

The Compensation Committee is responsible for reviewing and recommending the compensation of the members of our Board of Directors. In 2011, the Compensation Committee recommended to the Board of Directors, and the Board of Directors approved, the non-employee director fee structure, effective April 1, 2011. The table below lists the annual fees payable to our non-employee directors from January 1, 2011 to March 31, 2011 under the prior director fee structure, as well as the annual fees payable under our current director fee structure effective April 1, 2011.

Compensation Element	Amount (\$)		Amount (\$)	
	(1/1/11)	3/31/11)	(4/1/11	present)
Annual Cash Retainer	100,000		115,000	
Annual Retainer for Lead Independent Director*		N/A		25,000
Audit Committee Retainer	10,000		10,000	
Audit Committee Chair Retainer	15,000		15,000	
Compensation Committee Chair Retainer	10,000		15,000	
Governance Committee Chair Retainer	10,000		10,000	
Policy Committee Chair Retainer	7,500		7,500	
Annual Equity Grant**	120,000		130,000	

\* For the period from January 1, 2011 through July 18, 2011, Mr. Coleman served as Non-executive Chairman of the Board of Directors. He was paid the prorated portion of an annual cash retainer of \$250,000 for service as the Non-executive Chairman during that period in addition to a prorated portion of the applicable annual cash retainer paid to the other members of the Board of Directors. Mr. Coleman began serving as Lead Independent Director effective July 19, 2011.

\*\* The annual equity grant is required to be deferred into a stock unit account pursuant to the 2011 Long-Term Incentive Stock Plan (the 2011 Plan ) and the 1993 Stock Plan for Non-Employee Directors, as amended (the 1993 Directors Plan ). The equity award provisions of the 1993 Directors Plan also applied to the shares awarded in 2011 pursuant to the 2011 Plan.

Retainer fees are paid on a quarterly basis at the end of each quarter. To encourage directors to have a direct and material investment in shares of our common stock, each year directors who are not employees must defer at least \$130,000 of their annual equity grant in Company stock to be placed in a stock unit account ( Automatic Stock Units ) to be paid out at the conclusion of the director's board service, or earlier, as specified by the director, if he or she has five or more years of service. In addition, each director may elect to defer payment of all or a portion of his or her remaining annual cash retainer and other annual committee retainer fees into a stock unit account ( Elective Stock Units ). The Elective Stock Units are paid at the conclusion of board service or earlier as specified by the director, regardless of years of service. 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 accumulated stock units until the shares of common stock related to such stock units are issued.

All directors are required to own common stock of the Company in an amount equal to five times the annual cash retainer, with such ownership to be achieved within five years of the later of (i) May 18, 2011 or (ii) the director's election to the Board. Deferred stock units and Company stock owned outright by the director count towards this requirement.

Directors are also eligible to participate in our Matching Gifts Program for Education. Under this program, the Company matches director contributions, up to \$10,000 per year per director, to eligible educational programs in accordance with the rules of the program.

**Security Arrangements for Certain Directors**

We maintain a comprehensive security program. As a component of this program, we provide certain individuals with residential and/or travel protection that we consider necessary to address our security requirements. In selecting the level and form of protection, we and the Board of Directors consider both security risks faced by those in our industry in general and security risks specific to our Company and employees.



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In 2010, we received specific information from Federal law enforcement officials that led us to conclude that there were threats to the Company and its principals. Based on that information and an ongoing dialogue with law enforcement officials, the Board of Directors has required that Mr. Bush, Mr. Coleman (who served as our Non-Executive Chairman when the threat was

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**Table of Contents****COMPENSATION OF DIRECTORS** *(continued)*

identified) and certain NEOs and elected officers receive varying levels of residential and travel protection. Mr. Coleman and Mr. Bush receive additional protection based on the specific threat information. That level of protection was provided for a partial year in 2010 and for the full year in 2011. The security protection for Mr. Coleman in 2011 included housing him in a more secure residence and providing for his personal travel and travel required by his employer using Company-provided aircraft to ensure his security. Consequently, the cost of providing security for Mr. Coleman during 2011 was higher than the cost of providing Mr. Bush's security.

Since we require this protection under a comprehensive security program and it is not designed to provide a personal benefit (other than the intended security), we do not view these security arrangements as compensation to the individuals. We report these security arrangements as perquisites as required under applicable SEC rules. In addition, we would report them as taxable compensation to the individuals, if they were not excludable from income as working condition fringe benefits under Internal Revenue Code Section 132.

We regularly review the nature of the threat and associated vulnerabilities with law enforcement and security specialists, and will continue to revise our security program as appropriate in response to those reviews, including the duration of security coverage required when individuals no longer serve in the roles associated with the threat information.

**Director Compensation Table**

The table below provides information on the compensation of our non-employee directors for the year ended December 31, 2011.

Name	Fees Earned or Paid in Cash (\$ (1))	Stock Awards (\$ (2))	All Other Compensation (\$ (3))	Total (\$)
Lewis W. Coleman	259,755(4)	127,500	5,265,101(5)	5,652,356
Thomas B. Fargo (6)	27,500	30,000	2,759	60,259
Victor H. Fazio	131,250	127,500	45,597(7)(8)	304,347
Donald E. Felsing	125,000	127,500	78,114(8)	330,614
Stephen E. Frank	136,250	127,500	23,081(8)	286,831
Bruce S. Gordon	111,250	127,500	12,683(8)	251,433
Madeleine A. Kleiner	121,250	127,500	22,637(7)(8)	271,387
Karl J. Krapek	111,250	127,500	27,558(7)(8)	266,308
Richard B. Myers	118,750	127,500	23,561(8)	269,811
Aulana L. Peters	121,250	127,500	35,791(7)	284,541
Gary Roughead (9)	0	0	0	0
Thomas M. Schoewe (10)	46,535	48,397	127	95,059
Kevin W. Sharer	111,250	127,500	48,906	287,656

- (1) Amounts shown in the Fees Earned or Paid in Cash column reflect the annual retainer paid to each director, including any applicable annual committee retainers. As described above, a director may elect to defer all or a portion of his or her annual retainer into a stock unit account.
- (2) Represents the target value of Automatic Stock Units awarded to each of our non-employee directors in 2011 under the 2011 Plan and the 1993 Directors Plan. The amount reported in this column for each director reflects the aggregate fair value on the date of grant, as determined under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation, of the stock units for each director, excluding any assumed forfeitures.

Assumptions used to calculate these amounts are included in Note 17 of our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

- (3) Amounts reflected in the All Other Compensation column include the dollar value of additional stock units credited to each non-employee director as a result of dividend equivalents earned on their respective stock units awarded under the 2011 Plan and the 1993 Directors Plan as follows: Mr. Coleman, \$61,542; Mr. Fargo, \$2,759; Mr. Fazio, \$40,484; Mr. Felsing, \$31,310; Mr. Frank, \$23,014; Mr. Gordon, \$12,514; Ms. Kleiner, \$12,514; Mr. Krapek, \$22,488; General Myers, \$21,222; Ms. Peters, \$28,291; Mr. Schoewe, \$127; and Mr. Sharer, \$48,906.

Amounts shown also include perquisites and other personal benefits provided to certain of the directors in 2011 for use of Company aircraft for personal travel, including travel expenses for family members accompanying the director while on travel, security and matching contributions made through our Matching Gifts Program for Education discussed above. The cost of any category of the listed perquisites and personal benefits did not exceed the greater

**Table of Contents****COMPENSATION OF DIRECTORS** *(continued)*

of \$25,000 or 10% of total perquisites and personal benefits for any director, except for (i) the residential and personal security provided to Mr. Coleman described in footnote 5 below and (ii) Mr. Felsingers personal and spousal travel on Company aircraft (\$46,804).

- (4) Includes \$130,027 retainer for service as the Non-Executive Chairman of the Board of Directors from January 1, 2011 to July 18, 2011.
- (5) Amounts include expenses for residential and personal security required for Mr. Coleman. We calculate the cost of travel security coverage based on the hourly rates and overhead fees charged directly to the Company by the firms providing security personnel. If Company security personnel are used, their hourly rates are used to calculate the cost of coverage for each trip. During 2011, the Company incurred \$5,203,559 in costs related to security protection related to Mr. Coleman. These costs include \$1,515,536 attributable to personal and family member travel on Company aircraft consistent with our security program discussed above and a \$174,953 tax gross-up.
- (6) Admiral Thomas B. Fargo resigned from the Board of Directors and its committees on March 21, 2011. All amounts shown for 2011 were paid in cash upon Admiral Fargo's resignation from service on the Board of Directors.
- (7) Amounts include matching contributions made through our Matching Gifts Program for Education discussed above as follows: Mr. Fazio, \$5,000; Ms. Kleiner, \$10,000; Mr. Krapek, \$5,000; and Ms. Peters, \$7,500.
- (8) Includes spousal travel on Company aircraft. To calculate the value of personal use of Company aircraft, we calculate the incremental cost of each element, which includes trip-related crew hotels and meals, in-flight food and beverages, landing and ground handling fees, hourly maintenance contract costs, hangar or aircraft parking costs, fuel costs based on the average annual cost of fuel per mile flown and other smaller variable costs. Fixed costs that would be incurred in any event to operate Company aircraft (e.g., aircraft purchase costs, maintenance not related to personal trips and flight crew salaries) are not included.
- (9) Admiral Roughead was elected to the Board of Directors on February 14, 2012.
- (10) Mr. Schoewe was elected to the Board of Directors on August 17, 2011. Amounts shown reflect the prorated amounts of Mr. Schoewe's retainer fees and equity grant for 2011.

**Deferred Stock Units**

As of December 31, 2011, the non-employee directors had the following aggregate number of deferred stock units accumulated in their deferral accounts for all years of service as a director, including additional stock units credited as a result of dividend equivalents earned on the stock units.

Name	Automatic Stock	Elective Stock	Total
	Units	Units	
Lewis W. Coleman	14,221	21,798	36,019
Thomas B. Fargo*	0	0	0
Victor H. Fazio	11,807	11,699	23,506
Donald E. Felsingers	10,805	8,270	19,075
Stephen E. Frank	13,430	0	13,430
Bruce S. Gordon	7,883	0	7,883

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Madeleine A. Kleiner	7,883	0	7,883
Karl J. Krapek	7,883	6,388	14,271
Richard B. Myers	12,483	0	12,483
Aulana L. Peters	14,221	2,159	16,381
Gary Roughead**	0	0	0
Thomas M. Schoewe	784	0	784
Kevin W. Sharer	14,217	14,388	28,605

\* Admiral Fargo's Automatic Stock Units held as of December 31, 2010 were paid to him in the form of Company common stock upon his resignation from the Board of Directors in March, 2011. Mr. Fargo did not hold any Elective Stock Units as of December 31, 2010. Mr. Fargo's Automatic Stock Units earned for the quarter ended March 31, 2011, were paid in cash.

\*\* Admiral Roughead was elected to the Board of Directors on February 14, 2012.

**Table of Contents****COMPENSATION OF DIRECTORS** *(continued)***Prior Non-Employee Directors Equity Plans**

The 1995 Stock Plan for Non-Employee Directors (the 1995 Directors Plan ) provided for the annual grant of nonqualified stock options to each non-employee director to purchase shares of common stock with an exercise price equal to the fair market value of a share of common stock on the grant date. Since June 2005, no new grants have been issued pursuant to the 1995 Directors Plan. Awards subsequent to 2005 have been issued pursuant to the 1993 Directors Plan and the 2011 Plan. All stock options currently outstanding under the 1995 Directors Plan have a term of ten years from the date of grant. If the individual ceases to serve as a director, the stock options continue to be exercisable for the lesser of five years or the expiration of the original term of the stock options. If the termination of the individual's service is for cause, the stock options terminate and are automatically forfeited when the director ceases to serve.

Each non-employee director had the following aggregate number of shares underlying outstanding stock option awards that are exercisable as of December 31, 2011:

Name	# Shares Underlying Outstanding Option Awards
Lewis W. Coleman	0
Thomas B. Fargo	0
Victor H. Fazio	6,562
Donald E. Felsing	0
Stephen E. Frank	0
Bruce S. Gordon	0
Madeleine A. Kleiner	0
Karl J. Krapek	0
Richard B. Myers	0
Aulana L. Peters	6,562
Gary Roughead	0
Thomas M. Schoewe	0
Kevin W. Sharer	6,562

***Director Equity Plan***

Under the Northrop Grumman Non-Employee Directors Equity Participation Plan (the Director Equity Plan ), non-employee directors had 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 (as defined in the Director Equity Plan) of our common stock. Because no new participants have been added to the Director Equity Plan since May 31, 2005, only Ms. Peters and Messrs. Coleman, Fazio and Sharer participate in this plan. Generally, if a participating non-employee director terminates service on the Board of Directors after completion of at least three consecutive years of service or retires from the Board of Directors as a result of a total disability or a debilitating illness as defined in the Director Equity Plan, the participant will be entitled to receive the full balance of the participant's equity participation account in annual installments. If a participant terminates service on the Board of Directors prior to completing three consecutive years of service and the termination occurs because he or she will have attained age 70 prior to the annual meeting of shareholders, the participant will be entitled to a partial amount of his or her equity participation account. Upon a change in control of the Company, as defined in the Director Equity Plan, non-employee directors will immediately be entitled to receive the full balance of their equity participation account under the Director Equity Plan regardless of the number of years of consecutive service, although payments of their benefits will not commence until the termination of his or her service. No new annual accruals have been credited to the Director Equity Plan; however, the directors participating in the Director Equity Plan do receive quarterly dividend accruals on the balances held in their respective equity participation accounts.

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**TRANSACTIONS WITH RELATED PERSONS AND CONTROL PERSONS**

**Related Person Transaction Policy**

The Board of Directors has approved a written policy and procedures for the review, approval and ratification of transactions among our Company and our directors, executive officers and related persons. A copy of the policy is available on our website ([www.northropgrumman.com](http://www.northropgrumman.com)) and described in Corporate Governance Available Information above. The policy requires that all related person transactions be reviewed and approved or ratified, as applicable, by the Governance Committee. The Governance Committee may approve or ratify related person transactions at its discretion if the transaction is deemed fair and reasonable to the Company.

The policy defines a related person transaction as any transaction in which the Company was, is, or will be a participant, where the amount involved exceeds \$120,000, and in which a related person had, has or will have a direct or indirect material interest. A related person includes:

- i any of our directors or executive officers;
- i any person who is known to be the beneficial owner of more than 5% of any class of our voting securities;
- i an immediate family member of any such person; and
- i any firm, corporation, or other entity controlled by any such person.

The Corporate Secretary may determine that a transaction in an amount less than \$120,000 should nonetheless be deemed a related person transaction. If this occurs, the transaction would also be required to be submitted to the Governance Committee for review and approval or ratification.

The policy requires each director and executive officer to complete an annual questionnaire to identify his or her related interests and persons and to notify the Corporate Secretary of any changes to that information. The Corporate Secretary maintains a master list of related persons for purposes of tracking and reporting related person transactions.

If the Governance Committee does not recommend ratification of a related person transaction or the Board of Directors does not ratify a related person transaction that is pending or ongoing, the Governance Committee will refer the transaction to management for amendment or termination and determine whether other action is appropriate.

**Certain Relationships and Related Person Transactions**

In 2011, except as disclosed in the paragraph below, none of our directors or executive officers was a participant in or had a relationship regarded as a related person transaction, as considered under our corporate written policy and applicable regulations of the SEC and the NYSE listing standards.

As discussed under the Corporate Office Relocation section of the Compensation Discussion and Analysis included in this Proxy Statement, in 2010 we announced that we would move our corporate headquarters from Los Angeles, CA to Falls Church, VA. The relocation was completed in the summer of 2011. Messrs. Bush and Palmer were the only NEOs impacted by the relocation, as none of the other NEOs in the corporate headquarters were based in Los Angeles, CA. Mr. Bush did not receive any relocation payments from the Company in 2011, and he elected to pay his own costs of moving his household goods. The Compensation Committee approved a lump sum payment of \$750,000 to Mr. Palmer in lieu of relocation benefits to which he was otherwise entitled. In exchange for this payment, Mr. Palmer forfeited all benefits to which he was otherwise entitled to receive under our relocation policy.

In 2011, we paid Michael Petters \$302,360 in relocation benefits. Prior to the spin-off, Mr. Petters was the head of our shipbuilding business.

#### **Compensation Committee Interlocks and Insider Participation**

The members of the Compensation Committee are listed previously in the section Committees of the Board of Directors. No member of the Compensation Committee had a relationship with the Company or any of our subsidiaries, other than as directors and shareholders, and no member has ever been an officer or employee of the Company or any of our subsidiaries, a participant in a related person transaction or an executive officer of another entity, where one of our executive officers serves on the board of directors.

#### **Certain Indemnification Agreements**

Our Bylaws generally require us to indemnify our directors and executive officers to the fullest extent permitted by Delaware law. Additionally, as permitted by Delaware law, we have entered into indemnification agreements with each of our directors and executive officers. Under the indemnification agreements, we have agreed to hold harmless and indemnify each indemnitee, generally to the fullest extent permitted by Delaware law, against all expenses, liabilities and loss incurred in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative to which the indemnitee is made a party by reason of the fact that the indemnitee is or was a director or officer of the Company or any other entity at our request, provided however, that the indemnitee acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of our Company.



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**TRANSACTIONS WITH RELATED PERSONS AND CONTROL PERSONS** *(continued)*

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than ten percent of our common stock, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC.

Based on our review of Forms 3, 4 and 5 we have received or have filed on behalf of our officers and directors, and of written representation from those persons that they were not required to file a Form 5, we identified one Form 4 for Ms. Peters that, due to an administrative error, was filed late during the year ended December 31, 2011. This filing related to shares of common stock transferred to a trust. We believe that all other filings were made on a timely basis during the year ended December 31, 2011.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2012 PROXY STATEMENT 1 25

**Table of Contents****VOTING SECURITIES AND PRINCIPAL HOLDERS****Stock Ownership of Certain Beneficial Owners**

On December 31, 2011, there were 253,889,662 shares of our common stock outstanding. The following entities beneficially owned, to our knowledge, more than five percent of the outstanding common stock as of December 31, 2011:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
<b>State Street Corporation</b> One Lincoln Street, Boston, MA 02111	29,951,601 shares(1)	11.80%
<b>Capital World Investors</b> 333 South Hope Street, Los Angeles, CA 90071	14,964,223 shares(2)	5.89%
<b>BlackRock, Inc.</b> 40 East 52 <sup>nd</sup> Street, New York, NY 10022	22,078,875 shares(3)	8.70%

- (1) This information was provided by State Street Corporation ( State Street ) in a Schedule 13G filed with the SEC on February 13, 2012. According to State Street, as of December 31, 2011, State Street had shared voting power over 29,951,601 shares and shared dispositive power over 29,886,167 shares. This total includes 18,860,833 shares held in the Defined Contributions Master Trust for the Northrop Grumman Savings Plan and the Northrop Grumman Financial Security and Savings Program, for which State Street Bank and Trust Company acts as trustee and investment manager.
- (2) This information was provided by Capital World Investors, a division of Capital Research and Management Company ( Capital World ), in a Schedule 13G/A filed with the SEC on February 10, 2012. According to Capital World Investors, as of December 31, 2011, Capital World Investors had sole dispositive power over 14,964,223 shares and sole voting power over 2,489,223 shares.
- (3) This information was provided by BlackRock, Inc. ( BlackRock ) in a Schedule 13G/A filed with the SEC on February 10, 2012. According to BlackRock, as of December 31, 2011, BlackRock had sole voting and dispositive power over 22,078,875 shares.

**Table of Contents****VOTING SECURITIES AND PRINCIPAL HOLDERS (continued)****Stock Ownership of Officers and Directors**

The following table shows beneficial ownership of our common stock as of March 20, 2012 by each director nominee, the Named Executive Officers and all directors and executive officers as a group. As of March 20, 2012, there were 253,008,230 shares of our common stock outstanding.

None of the persons named below beneficially owns in excess of 1% of our 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 nominees for director or executive officers of the Company.

	Shares of Common Stock Beneficially Owned	Share Equivalents(1)	Shares Subject To Option(2)	Total
<b>Non-Employee Directors</b>				
Lewis W. Coleman	0	36,019	0	36,019
Victor H. Fazio	11,277(3)	17,451	6,562	35,289
Donald E. Felsing	0	19,075	0	19,075
Stephen E. Frank	1,000	13,430	0	14,430
Bruce S. Gordon	0	7,883	0	7,883
Madeleine A. Kleiner	0	7,883	0	7,883
Karl J. Krapek	0	14,271	0	14,271
Richard B. Myers	0	12,483	0	12,483
Aulana L. Peters	14,542(4)	14,314	3,281	32,137
Gary Roughead	0	0	0	0
Thomas M. Schoewe	1,660	784	0	2,444
Kevin W. Sharer	2,995	28,605	6,562	38,162
<b>Named Executive Officers</b>				
Wesley G. Bush (5)	212,733(6)	4,948	1,274,264	1,491,945
James F. Palmer	72,424	0	430,745	503,169
Gary W. Ervin	10,155(7)	7,302	255,706	273,163
James F. Pitts	21,829	0	448,409	470,238
Linda A. Mills	43,871(8)	11,893	297,687	353,451
Other Executive Officers	71,541	3,582	291,280	366,403
<b>All Directors and Executive Officers as a Group (24 persons)</b>	464,026	199,923	3,014,496	3,678,445(9)

- (1) Share equivalents for directors represent non-voting deferred stock units acquired under the 2011 Plan and the 1993 Directors Plan, some of which are paid out in shares of common stock at the conclusion of a director-specified deferral period, and others are paid out upon termination of the director's service on the Board of Directors. Certain of the Named Executive Officers hold share equivalents with pass-through voting rights in the Northrop Grumman Savings Plan.
- (2) These shares subject to option are either currently exercisable or exercisable within 60 days of March 20, 2012.
- (3) Includes 811 shares held in our Dividend Reinvestment Plan.
- (4) Includes 12,475 shares held in the Peters Family Trust of which Ms. Peters is the trustee.
- (5) Mr. Bush is also Chairman of the Board of Directors.
- (6) The shares are held in the W.G. and N.F. Bush Family Trust of which Mr. Bush and his wife are trustees.
- (7) The shares are held in the G&M Ervin Family Trust.
- (8) The shares are held by the Linda Anne Mills Living Trust.

(9) Total represents 1.45% of the outstanding common stock.

**Table of Contents****EQUITY COMPENSATION PLAN INFORMATION****Equity Compensation Plan Information**

We currently maintain four equity compensation plans: the 2011 Plan, the 2001 Plan, the 1995 Directors Plan and the 1993 Directors Plan. Each of these plans has been approved by our shareholders.

The following table sets forth, for each of our equity compensation plans, the number of shares of our common stock subject to outstanding stock options, the weighted-average exercise price of the outstanding stock options and the number of shares remaining available for future award grants as of December 31, 2011.

Plan category	Number of shares of common stock to be issued upon exercise of outstanding options and payout of outstanding awards (1)	Weighted-average exercise price of outstanding options (2)	Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares reflected in the first column) (3)
	Equity compensation plans approved by shareholders	21,600,864	\$53
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
<b>Total</b>	21,600,864	\$53	46,692,793(4)

- (1) Of these shares, 32,810 were subject to stock options then outstanding under the 1995 Directors Plan, 44,242 were subject to stock options then outstanding under the 2011 Plan, 11,513,910 were subject to stock options then outstanding under the 2001 Plan, and 152,744 options were outstanding as a result of conversions from TRW Inc. stock plans. In addition, this number includes 130,270 shares that were subject to outstanding stock awards granted under the 2011 Plan, 3,491,462 shares that were subject to outstanding stock awards granted under the 2001 Plan, and reflects 2,802,352 awards earned at year end but pending distribution, and 180,332 shares subject to outstanding stock units credited under the 1993 Directors Plan. Additional performance shares of 3,252,742 reflect the number of shares deliverable under payment of outstanding restricted performance stock rights, assuming maximum performance criteria have been achieved. Included in this number are 2,796,302 shares subject to stock options that were out-of-the-money as of December 31, 2011.
- (2) This number reflects the weighted-average exercise price of outstanding stock options and has been calculated exclusive of outstanding restricted performance stock right and restricted stock right awards, and exclusive of stock units credited under the 2011 Plan and the 1993 Directors Plan.
- (3) Of the aggregate number of shares that remained available for futu