

NORTHROP GRUMMAN CORP /DE/  
Form DEF 14A  
April 06, 2015  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

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

**Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**NORTHROP GRUMMAN CORPORATION**

(Name of Registrant as Specified In its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

**Table of Contents**

April 6, 2015

On behalf of the Board of Directors and management team, we cordially invite you to attend Northrop Grumman Corporation's 2015 Annual Meeting of Shareholders. This year's meeting will be held Wednesday, May 20, 2015 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. For those who are unable to attend, live coverage of the meeting will be available on the Northrop Grumman website 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 2015 PROXY STATEMENT](#)

Table of Contents

# Notice of 2015 Annual Meeting of Shareholders

**Wednesday, May 20, 2015**

**8:00 a.m., Eastern Daylight Time**

*Northrop Grumman Corporation, Principal Executive Office*

*2980 Fairview Park Drive, Falls Church, Virginia 22042*

The Annual Meeting of Shareholders (Annual Meeting) of Northrop Grumman Corporation will be held on Wednesday, May 20, 2015 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 24, 2015 are entitled to vote at the Annual Meeting. The following items are on the agenda:

1. The election of the 12 nominees named in the attached Proxy Statement as directors to hold office until the 2016 Annual Meeting;
2. A proposal to approve, on an advisory basis, the compensation of our named executive officers;
3. A proposal to amend the Company's 2011 Long-Term Incentive Stock Plan;
4. A proposal to ratify the appointment of Deloitte & Touche LLP as our independent auditor for the year ending December 31, 2015;
5. One shareholder proposal included and discussed in the accompanying Proxy Statement; and
6. 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 proof of stock ownership and 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.

We encourage all shareholders to vote on the matters described in the accompanying Proxy Statement. Please see the section entitled Questions and Answers About the Annual Meeting on page 1 for information about voting by mail, telephone, internet, mobile device or in person at the Annual Meeting.

By order of the Board of Directors,  
Jennifer C. McGarey

**April 6, 2015**

**Important Notice Regarding the Availability of Proxy Materials for the Shareholders Meeting to be held on May 20, 2015: The Proxy Statement for the 2015 Annual Meeting of Shareholders and the Annual Report for the year ended December 31, 2014 are available at: [www.edocumentview.com/noc](http://www.edocumentview.com/noc).**

[NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I](#)

**Table of Contents****PROXY STATEMENT SUMMARY**

This summary highlights information contained elsewhere in this Proxy Statement, reflecting important business, compensation and corporate governance highlights. For additional information about these topics, please refer to the discussions contained in this Proxy Statement and in our Annual Report on Form 10-K for the year ended December 31, 2014 (2014 Form 10-K) filed with the United States (U.S.) Securities and Exchange Commission on February 2, 2015. This Proxy Statement contains certain non-GAAP financial measures. We have identified these measures with an asterisk; for more information, including reconciliations to the nearest GAAP measure, see Miscellaneous - Use of Non-GAAP Financial Measures.

**2014 Performance Highlights (page 30)**

In 2014, we continued to focus on performance, cash deployment and portfolio to create long-term value for our shareholders. 2014 was another year of strong financial performance for the Company. We improved our operating performance and continued to deploy our cash to create long-term shareholder value. Our diluted earnings per share (EPS) increased 17% to \$9.75. Our businesses improved their profitability and increased segment operating margin rate\* to 12.9%. Our cash generation continued to be strong. We generated \$2.6 billion of cash provided by operations, and after investing \$561 million in capital spending, our free cash flow\* totaled \$2.0 billion. We returned approximately 160% of our free cash flow to our shareholders through share repurchases and dividends. We continued to make progress toward our announced goal of retiring 60 million shares by the end of 2015, market conditions permitting. At the end of 2014, we had repurchased 42.2 million shares, or 70% toward that goal. Our stock price substantially outperformed the major market indices again in 2014. Our share price increased 29% and total shareholder return (TSR) for 2014 was 31.4%. The following are some of our 2014 financial highlights:

17% increase in diluted EPS to \$9.75 per share	\$3.2 billion distributed to our shareholders - approximately 160% of Free Cash Flow	\$563 million paid in dividends	21.4 million shares repurchased for \$2.7 billion - weighted average diluted shares outstanding reduced by 9%	\$25 billion of net new awards
31.4% Total Shareholder Return		15% quarterly dividend increase, 11th consecutive annual increase		\$38.2 billion total backlog at 12/31/14

**2014 Executive Compensation Highlights (page 29)**



We continued to demonstrate our commitment to, and alignment with shareholders' interests through our performance-based executive compensation programs. We sustained strong financial performance in 2014, and exceeded targets for three out of four 2014 annual incentive plan (AIP) metrics. Our 2014 AIP payout was 146% and remained in line with the 144% payout in 2013. We generated the top three-year TSR performance relative to the Performance Peer Group identified on page 34 and ranked in the 94th percentile of three-year TSR performance relative to the S&P Industrials. However, our LTIP payout declined from 159% to 150% for Corporate Policy Council (CPC) members due to new limits on LTIP payouts that were implemented starting with the 2012 grants. Following are some additional highlights of our 2014 executive compensation approach:

<p><b>70%</b> of Annual LTIP Equity Grant <b>TSR</b> <b>Performance-</b> <b>Based</b></p>	<p><b>Stock</b> <b>Ownership</b> Guidelines for All Officers: <b>CEO 7x</b> <b>NEOs 3x</b></p>	<p><b>3-Year</b> <b>Mandatory</b> <b>Holding Period</b> for 50% of Vested Shares</p>	<p><b>Recoupment</b> <b>Policy</b> on Incentive Payouts</p>	<p><b>No Individual</b> <b>Change in</b> <b>Control</b> Agreements</p>
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**Table of Contents****PROXY STATEMENT SUMMARY****Board Nominees (pages 4-10)**

Name	Age	Director since	Professional Background	Independent		Committee Memberships
				Yes	No	
Wesley G. Bush	54	2009	Chairman, CEO and President, Northrop Grumman Corporation		X	
Marianne C. Brown	56	2015	Chief Operating Officer, SunGard Financial Systems	X		Audit, Policy
Victor H. Fazio	72	2000	Senior Advisor, Akin Gump Strauss Hauer & Feld LLP; Former Member of Congress	X		Audit, Policy
Donald E. Felsing	67	2007	Former Chairman and CEO, Sempra Energy	X		Compensation, Governance
Bruce S. Gordon	69	2008	Former President and CEO, NAACP; Former President, Retail Markets Group, Verizon Communications Inc.	X		Compensation, Policy
William H. Hernandez	67	2013	Former Senior Vice President and CFO, PPG Industries, Inc.	X		Audit, Policy
Madeleine A. Kleiner	63	2008	Former Executive Vice President and General Counsel, Hilton Hotels Corporation	X		Audit, Governance
Karl J. Krapek	66	2008	Former President and COO, United Technologies Corporation	X		Compensation, Governance
Richard B. Myers	73	2006	Retired General, United States Air Force and Former Chairman of the Joint Chiefs of Staff	X		Compensation, Policy
Gary Roughead	63	2012	Retired Admiral, United States Navy and Former Chief of Naval Operations	X		Audit, Policy
Thomas M. Schoewe	62	2011	Former Executive Vice President and CFO, Wal-Mart Stores, Inc.	X		Audit, Policy
James S. Turley	59	2015	Former Chairman and Chief Executive Officer, Ernst & Young	X		Audit, Policy

In accordance with our retirement policy, the Board determined that due to special circumstances, including their backgrounds and roles in support of certain strategic undertakings, it was in the best interest of the Company and our shareholders for Mr. Fazio and General Myers to continue to serve as directors beyond their 72nd birthdays.

**Governance Highlights (pages 11-18)**

We are committed to high standards of corporate governance and have a robust corporate governance program intended to promote the long-term success of our Company. Some highlights of our corporate governance practices are listed below.

Number of Independent Director Nominees	11 of 12
Audit, Compensation and Governance Committees Comprised Entirely of Independent Directors	YES
Annual Election of All Directors	YES
Lead Independent Director	YES
Majority Voting for Directors in Uncontested Elections	YES
Annual Board and Committee Self-Evaluations	YES
Ability to Act by Written Consent	YES
Ability of Shareholders to Call a Special Meeting	YES
Annual Advisory Vote on Executive Compensation	YES
Recoupment Policy for Incentive Compensation	YES
Stock Ownership Guidelines for Directors and Executive Officers	YES
Policy Prohibiting Hedging and Pledging of Company Stock by Directors and Executive Officers	YES

ii I NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT

**Table of Contents**

**PROXY STATEMENT SUMMARY**

**Shareholder Engagement**

We regularly engage with our shareholders to understand better their perspectives on our Company, including our strategies, operations and performance, as well as matters of executive compensation and corporate governance. This dialogue with our shareholders has helped inform the Board's decisions and has resulted in, among other things, changes to our governance and compensation practices aimed at ensuring our interests remain well-aligned. We intend to continue this active engagement to inform our actions.

**Annual Shareholders Meeting**

**Time:** May 20, 2015, 8:00 a.m., Eastern Daylight Time

**Record Date:** You can vote if you were a shareholder of record at the close of business on March 24, 2015.

**Place:** Northrop Grumman Corporation

**Admission:** You will need proof of stock ownership and a form of photo identification.

2980 Fairview Park Drive

Falls Church, Virginia 22042

**Voting Matters and Board Recommendations**

	<b>Board Vote Recommendation</b>	<b>Page Reference</b>
Election of Directors	<b>FOR</b> each Director Nominee	4
Advisory Vote on Compensation of Named Executive Officers	<b>FOR</b>	27
Amendment of 2011 Long-Term Incentive Stock Plan	<b>FOR</b>	56
Ratification of Deloitte & Touche LLP as Independent Auditor	<b>FOR</b>	59
Shareholder Proposal - Regarding Independent Board Chairman	<b>AGAINST</b>	62

**How to Cast Your Vote (page 2)**

You can vote by any of the following methods:

**By Internet** - log on to [www.envisionreports.com/noc](http://www.envisionreports.com/noc)

**By Mail** - request a paper copy of the proxy materials via [www.envisionreports.com/noc](http://www.envisionreports.com/noc) to receive a proxy card and vote by marking the voting instructions on the proxy card

**By Telephone** - call 800-652-VOTE (800-652-8683) (toll-free)

**By QR Code** - scan the QR code on your proxy card, notice of availability or voting instruction form with your mobile device

**In Person** - All shareholders are invited to attend the Annual Meeting. You will need proof of stock ownership and a form of photo identification.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I iii

**Table of Contents**

**TABLE OF CONTENTS**

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING** **1**

**PROPOSAL ONE: ELECTION OF DIRECTORS** **4**

2015 Nominees for Director 4

**CORPORATE GOVERNANCE** **11**

Role of the Board 11

Board Leadership Structure 12

Committees of the Board of Directors 13

Board Meetings and Executive Sessions 14

Meeting Attendance 14

Director Independence 15

Election Process 16

Director Nominations 16

Director Qualifications 16

Board Membership and External Relationships 16

Effect of a Failure by an Incumbent Director to Receive the Required Vote or Obtain and Retain Security Clearance 17

Board and Committee Self-Evaluation 17

Succession Planning 18

Departure and Election of Directors 18

Communications with the Board of Directors 18

**COMPENSATION OF DIRECTORS** **19**

Director Compensation Table 20

**TRANSACTIONS WITH RELATED PERSONS AND CONTROL PERSONS** **22**

<u>Related Person Transaction Policy</u>	22
<u>Related Person Transactions</u>	22
<u>Compensation Committee Interlocks and Insider Participation</u>	22
<u>Indemnification Agreements</u>	22

**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE** 23

**VOTING SECURITIES AND PRINCIPAL HOLDERS** 24

**EQUITY COMPENSATION PLAN INFORMATION** 26

**PROPOSAL TWO: ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS** 27

iv I NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT

**Table of Contents**

**TABLE OF CONTENTS**

<b><u>EXECUTIVE COMPENSATION</u></b>	<b>28</b>
<u>Compensation Discussion and Analysis</u>	28
<u>Summary Compensation Table</u>	43
<u>2014 Grants of Plan-Based Awards</u>	45
<u>Outstanding Equity Awards at 2014 Fiscal Year End</u>	46
<u>2014 Option Exercises and Stock Vested</u>	47
<u>2014 Pension Benefits</u>	48
<u>2014 Nonqualified Deferred Compensation</u>	52
<u>Termination Payments and Benefits</u>	54
<b><u>PROPOSAL THREE: APPROVAL OF AMENDMENT TO 2011 LONG-TERM INCENTIVE STOCK PLAN</u></b>	<b>56</b>
<b><u>PROPOSAL FOUR: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR</u></b>	<b>59</b>
<b><u>AUDIT COMMITTEE REPORT</u></b>	<b>61</b>
<b><u>PROPOSAL FIVE: SHAREHOLDER PROPOSAL</u></b>	<b>62</b>
<u>Shareholder Proposal Regarding Independent Board Chairman</u>	62
<u>Board of Directors Statement in Opposition to Proposal Five</u>	62
<b><u>MISCELLANEOUS</u></b>	<b>65</b>



<u>Voting on Other Matters</u>	65
<u>Shareholder Proposals for 2016 Annual Meeting</u>	65
<u>Shareholder Nominations for Director Election at 2016 Annual Meeting</u>	65
<u>Householding Information</u>	65
<u>Cost of Soliciting Proxies</u>	65
<u>Available Information</u>	66
<u>Use of Non-GAAP Financial Measures</u>	66

**APPENDIX A - SUMMARY OF AMENDED 2011 LONG-TERM INCENTIVE STOCK PLAN** **A-1**

**APPENDIX B - AMENDED 2011 LONG-TERM INCENTIVE STOCK PLAN** **B-1**

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I v

---

**Table of Contents**

**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 2015 Annual Meeting of Shareholders (Annual Meeting). 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, 2015.

**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 24, 2015 (Record Date). As of March 24, 2015, there were 196,445,226 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 (Notice) as permitted by the rules of the SEC. The 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 and what are the Board of Directors' recommendations?**

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The following table lists the proposals scheduled to be voted on, the vote required for approval of each proposal and the effect of abstentions and broker non-votes:

<b>Proposal</b>	<b>Board Recommendation</b>	<b>Vote Required</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>	<b>Unmarked Proxy Cards</b>
Election of Directors  <i>(Proposal One)</i>	<b>FOR</b>	Majority of votes cast	No effect	No effect	Voted FOR
Advisory Vote on Compensation of Named Executive Officers  <i>(Proposal Two)</i>	<b>FOR</b>	Majority of votes cast	No effect	No effect	Voted FOR
Amendment of 2011 Long-Term Incentive Stock Plan  <i>(Proposal Three)</i>	<b>FOR</b>	Majority of votes cast	Against	No effect	Voted FOR
Ratification of Appointment of Deloitte & Touche LLP for 2015  <i>(Proposal Four)</i>	<b>FOR</b>	Majority of votes cast	No effect	No effect	Voted FOR
Shareholder Proposal - Regarding Independent Board Chairman  <i>(Proposal Five)</i>	<b>AGAINST</b>	Majority of votes cast	No effect	No effect	Voted AGAINST

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I 1

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

**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 Four 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?**

If you hold shares as a record holder, you may vote by proxy prior to the meeting, as discussed below, or you may vote 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.envisionreports.com/noc](http://www.envisionreports.com/noc) to view this Proxy Statement and the Annual Report.

**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 shareholders 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 QR Code** Registered shareholders and plan participants may vote by scanning the QR code on their proxy card or notice with their mobile device.

**By Mail** Registered shareholders and 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.

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. 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.

**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 and will need to instruct the record owner to vote 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 agent can vote his or her shares in person 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 the proxy to the inspector of election at the meeting together with his or her ballot.

2 I NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

**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 vote their plan shares, 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 applicable plan Trustee or Voting Manager by 11:59 p.m. Eastern Daylight Time on May 17, 2015 in order to be used by the plan Trustee or Voting Manager to determine the votes cast with respect to plan shares.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I 3

**Table of Contents**

**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

**2015 Nominees for Director**

Our Board has nominated 12 directors for election at the Annual Meeting. Each of the 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 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, 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 nominees. In addition, we have provided information regarding some of the particular experiences, qualifications, attributes and skills that led the Board 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 director nominees listed below.

**WESLEY G. BUSH, 54**

*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. Mr. Bush served as President and Chief Operating Officer of the Company 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 Inc. (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. He serves on the boards of several non-profit organizations, including the Aerospace Industries Association, the Business Higher Education Forum, Conservation International, INOVA Health Systems, the Naval Academy Foundation and the Congressional Medal of Honor Foundation.

*Attributes, Skills and Qualifications*

Significant business experience with over 30 years in the aerospace and defense industry

Prior leadership positions within Northrop Grumman (including as Chief Operating Officer, Chief Financial Officer and Sector President)

Extensive international business experience

Extensive leadership roles in community service

[4 I NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT](#)



**Table of Contents**

**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

**MARIANNE C. BROWN, 56**

*Chief Operating Officer, SunGard Financial Systems, a software and IT services provider.*

*Director since 2015*

*Member of the Audit Committee and Policy Committee*

Ms. Marianne C. Brown has served as Chief Operating Officer of SunGard Financial Systems since February 2014. Prior to that, Ms. Brown was the CEO and president of Omgeo, a global financial services technology company, from March 2006 to February 2014. Before joining Omgeo, she was the CEO of the Securities Industry Automation Corporation. Ms. Brown began her career at Automatic Data Processing (ADP) and progressed through a series of positions of increasing responsibility culminating in her role as general manager of ADP's Brokerage Processing Services business, which was subsequently spun off to become Broadridge Financial Solutions. Ms. Brown is a director of the New York Women's Forum Education Fund, is President of Careers for People with Disabilities and is a Senior Advisor to Pro Mujer.

*Attributes, Skills and Qualifications*

Substantial business experience as Chief Operating Officer and as a former Chief Executive Officer

Significant experience in business management

Community and philanthropic leader

**VICTOR H. FAZIO, 72**

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

*Director since 2000*

*Member of the Audit Committee and Policy Committee*

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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 Energy Future Coalition, the United States Association of Former Members of Congress, the Campaign Finance Institute, the Committee for a Responsible Federal Budget, Center for Strategic and Budgetary Assessments, The Information Technology and Innovation Foundation, UC Davis Medical School Advisory Board and the National Parks Conservation Association.

### *Attributes, Skills and Qualifications*

20 years service as a member of Congress, including as a member of the House Appropriations Committee and Armed Services Committee, providing significant expertise in budgeting, appropriations and national security

Extensive public policy experience

Broad-based corporate governance expertise from prior board experience with the American Stock Exchange and service as Chair of our Governance Committee

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I 5

**Table of Contents**

**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

**DONALD E. FELSINGER, 67**

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

*Former Chairman and Chief Executive Officer, Sempra Energy, an energy services holding company.*

*Director since 2007*

*Member of the Compensation Committee and Governance Committee*

Mr. Donald E. Felsinger is the former Chairman and Chief Executive Officer of Sempra Energy. From July 2011 through his retirement in November 2012, he served as Executive Chairman of the Board of Directors of Sempra Energy, and from February 2006 through June 2011, he was Sempra's Chairman and CEO. 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. 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.

*Attributes, Skills and Qualifications*

Extensive business experience as Chief Executive Officer, a board member and Chairman of other Fortune 500 companies in regulated industries

Significant experience in corporate governance and strategy

In-depth knowledge of executive compensation and benefits

**BRUCE S. GORDON, 69**

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

*Director since 2008*

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

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 member of the board of directors of the Newport Festival Foundation and a member of the Executive Leadership Council. Mr. Gordon is a director of CBS Corporation and the Non-Executive Chair of The ADT Corporation. He currently serves as a diversity consultant to several Fortune 500 companies.

*Attributes, Skills and Qualifications*

Extensive leadership and business skills acquired from his experience with corporate and non-profit enterprises

National leader on issues of diversity and inclusion

Significant board experience, including as non-executive chair

**Table of Contents**

**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

**WILLIAM H. HERNANDEZ, 67**

*Former Senior Vice President and Chief Financial Officer, PPG Industries, Inc., a manufacturer of chemical and industrial products.*

*Director since 2013*

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

Mr. William H. Hernandez served as Senior Vice President, Finance, and Chief Financial Officer of PPG Industries, Inc. (PPG), from 1995 until his retirement in 2009. Prior to that, he was PPG's corporate controller from 1990 to 1994. Mr. Hernandez previously held a number of positions with Borg-Warner Corporation and Ford Motor Company. Mr. Hernandez is a certified management accountant and has taught finance and management courses at Marietta College. He is a member of the board of directors of Albermarle Corporation, Black Box Corporation and USG Corporation and served as director of Eastman Kodak during the last five years.

*Attributes, Skills and Qualifications*

Extensive experience and expertise in areas of finance, accounting and business management acquired as Chief Financial Officer of PPG Industries

Significant experience in areas of risk management

Audit committee financial expert

**MADELEINE A. KLEINER, 63**

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

*Director since 2008*

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

Ms. Madeleine A. Kleiner served as Executive Vice President, General Counsel and Corporate Secretary for Hilton Hotels Corporation from January 2001 until February 2008. From 1999 through 2001, she served as a director of a number of Merrill Lynch mutual funds operating under the Hotchkis 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 the chair of the UCLA Medical Center Board of Advisors and a member of the board of the New Village Charter School.

### *Attributes, Skills and Qualifications*

Expertise in corporate governance, implementation of Sarbanes-Oxley controls, risk management, securities transactions and mergers and acquisitions

Significant experience from past roles as general counsel for two public companies, outside counsel to numerous public companies and through service on another public company board

Audit committee financial expert

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I 7

**Table of Contents**

**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

**KARL J. KRAPEK, 66**

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

*Director since 2008*

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

Mr. Karl J. Krapek served as President and Chief Operating Officer of United Technologies Corporation from 1999 until his retirement 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 the lead director of Prudential Financial, Inc. He was also a director of The Connecticut Bank and Trust Company and Visteon Corporation during the past five years.

*Attributes, Skills and Qualifications*

Extensive industry experience and leadership skills

Deep operational experience in aerospace and defense, domestic and international business operations and technology and lean manufacturing

Significant public company board experience

**RICHARD B. MYERS, 73**

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

*Director since 2006*

*Member of the Compensation Committee and Policy 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 and is Chairman of the Board of Governors of the USO. He is also 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. General Myers serves on the Board of Rivada Networks and is Chairman of the Board of Trustees of the Kansas State University Foundation.

*Attributes, Skills and Qualifications*

Extensive career as a senior military officer and Chairman of the Joint Chiefs of Staff, having held leadership positions at the highest levels of the United States armed forces

Leading expert on national security and global geo-political issues

Extensive experience with Department of Defense operations and requirements and in-depth knowledge on issues related to the intelligence community



**Table of Contents**

**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

**GARY ROUGHEAD, 63**

*Admiral, United States Navy (Ret.) and Former Chief of Naval Operations.*

*Director since 2012*

*Member of the Audit Committee and Policy Committee*

Admiral Gary Roughead retired from his position as the 29th 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 also serves as a director of Theranos, Inc. and a trustee of the Dodge and Cox Funds. He is a director of the Center for a New American Society, the Darden School of Business Foundation, CNA, a not-for-profit research and analysis organization, and the Woods Hole Oceanographic Institution and is a member of the Council on Foreign Relations.

*Attributes, Skills and Qualifications*

Extensive career as a senior military officer with the United States Navy, including numerous operational commands, as well as leadership positions, most recently as the 29th Chief of Naval Operations

Significant expertise in national security, information warfare, cyber operations and global security issues

Broad experience in leadership and matters of global relations

**THOMAS M. SCHOEWE, 62**

*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 2011. Prior to his employment with Wal-Mart, he held several roles at the Black and Decker Corporation, including 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 and Kohlberg Kravis Roberts and Company. He also served as a director of PulteGroup Inc. during the last five years.

*Attributes, Skills and Qualifications*

Extensive financial experience 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

Significant international experience through his service as an executive of large public companies with substantial international operations

Extensive experience as a member of the audit committee of other public companies; audit committee financial expert

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT 19

**Table of Contents**

**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

**JAMES S. TURLEY, 59**

*Former Chairman and Chief Executive Officer, Ernst & Young, a professional services organization.*

*Director since 2015*

*Member of the Audit Committee and Policy Committee*

Mr. James S. Turley served as Chairman and Chief Executive Officer of Ernst & Young from 2001 until his retirement in 2013. Mr. Turley joined Ernst & Young in 1977 and held various positions there until being named regional managing partner for the Upper Midwest in 1994, and for New York in 1998. He was named Deputy Chairman in 2000. He currently serves on the Boards of Directors for Citigroup, Emerson Electric Company and Intrexon corporation. He also serves on the Board of Directors of the Boy Scouts of America and the Board of Trustees for Rice University. He is Chair of the National Corporate Theatre Fund and serves on the Committee for Economic Development.

*Attributes, Skills and Qualifications*

Extensive experience and expertise in areas of finance, accounting and business management acquired over 35-year career at Ernst & Young, including serving as Chairman and Chief Executive Officer of Ernst & Young

Significant experience in areas of risk management

Extensive experience as a member of the audit committee of other public companies; audit committee financial expert

**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 12 NOMINEES FOR DIRECTOR LISTED ABOVE.**

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**Table of Contents**

**CORPORATE GOVERNANCE**

**Overview**

We are committed to maintaining high standards of corporate governance, consistent with our core values of sustainable performance, ethics and compliance. With strong oversight from the Board, our corporate governance regime is intended to promote the long-term success of our Company to benefit our shareholders, customers and employees.

Our Company has adopted **Principles of Corporate Governance** and **Standards of Business Conduct** to help guide and promote our good corporate governance and responsible business practices.

Our Principles of Corporate Governance outline the role and responsibilities of our Board, set forth additional independence requirements for our directors and provide guidelines for Board leadership and Board and committee membership, among other items. The Board reviews these principles at least annually and considers opportunities for improvement and modification.

Our Standards of Business Conduct apply to our directors, officers and all employees. Among other things, they:

require high ethical standards in all aspects of our business;

require strict adherence to all applicable laws and regulations;

reinforce the need for avoiding actual or apparent conflicts of interest and require the responsible use of Company resources;

reinforce our commitment to being a responsible corporate citizen;

reflect our commitment to our work environment and the global communities where we live, work and serve;

require the consistent production of quality results; and

call upon all employees freely to seek guidance regarding business conduct and to raise any issues of concern (including on an anonymous basis).

## **Role of the Board**

The primary responsibility of our Board is to foster the long-term success of the Company, promoting the interests of our shareholders. Our directors exercise their business judgment in a manner they reasonably believe to be in the best interests of the Company and our shareholders and in a manner consistent with their fiduciary responsibilities. The responsibilities of the Board include, but are not limited to, the following:

oversee our long-term business strategies, operations and performance;

select the Chief Executive Officer and elect officers of the Company;

oversee our risk management activities;

oversee senior executive succession planning;

elect directors to fill vacant positions between Annual Meetings;

review and approve executive compensation;

review and approve significant corporate actions;

oversee and evaluate management and Board performance;

oversee our ethics and compliance programs; and

provide advice to management.

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

As noted above, the Board is responsible for overseeing our risk management activities, among other duties. Each of our Board committees assists the Board in this role. The Audit Committee focuses on risks that could impact our financial performance. The Audit Committee periodically receives a report from the Chief Financial Officer and members of the Finance Department addressing

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**Table of Contents**

**CORPORATE GOVERNANCE**

our financial risk management processes and systems, the nature of the material financial risks the Company faces and how the Company responds to and mitigates these risks. The Audit Committee periodically receives a report from our General Counsel on legal and other compliance risks and how the Company is addressing and mitigating those risks. The Audit Committee receives an annual report from our Chief Compliance Officer on the Company's compliance program overall. The Compensation Committee reviews at least annually a risk assessment of the Company's compensation programs and, together with its independent compensation consultant, evaluates the mix of at risk compensation linked to stock appreciation. The Policy Committee assists the Board in identifying and evaluating global security, political and budgetary issues and trends that could impact the Company's business. The Policy Committee periodically receives a report from the Vice President, Corporate Responsibility on the Company's ethics and corporate responsibility programs. The Governance Committee regularly reviews the Company's corporate governance policies and practices, and considers issues of succession and composition of the Board, recommending any proposed changes to the full Board for approval.

## **Board Leadership Structure**

The Board 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.

### **Chairperson of the Board**

Our Bylaws provide that our directors will designate a Chairperson of the Board from among its members. The Chairperson presides at all Board and shareholder meetings. The Chairperson interacts directly with all members of the Board and assists the Board to fulfill its responsibilities. Mr. Bush, our Chief Executive Officer and President, has served as Chairman since July 2011.

### **Lead Independent Director**

If the Chairperson is not independent, the independent directors will designate annually from among them a Lead Independent Director. Following our 2014 Annual Meeting, the independent directors designated Mr. Felsing as Lead Independent Director.

Our Principles of Corporate Governance set forth specific duties and responsibilities of the Lead Independent Director, which include the following:

preside at meetings of the Board at which the Chairperson is not present, including executive sessions of the independent directors, and advise the Chairperson and CEO on decisions reached;

advise the Chairperson on and approve meeting agendas and the information sent to the Board;

advise the Chairperson on and approve the schedule of Board meetings to assure there is sufficient time for discussion of all agenda items;

provide the Chairperson with input as to the preparation of Board and committee meeting agendas, taking into account the requests of the other Board and committee members;

interview, along with the Chairperson and the Chairperson of the Governance Committee, Board candidates and make recommendations to the Governance Committee and the Board;

call meetings of the independent directors;

serve as liaison between the Chairperson and the independent directors; and

if requested by major shareholders, ensure that he is available for consultation and direct communication.

12 I [NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT](#)

**Table of Contents**

**CORPORATE GOVERNANCE**

**Committees of the Board of Directors**

The Board has four standing committees: the Audit Committee, the Compensation Committee, the Governance Committee and the Policy Committee. The membership of these committees is typically determined at the organizational meeting of the Board held in conjunction with the Annual Meeting. All the committees are composed entirely of independent directors. The primary responsibilities of each of the committees are summarized below, together with a table listing the membership and chairperson of each committee as of December 31, 2014. The charters for each standing committee can be found on the Investor Relations section of our website ([www.northropgrumman.com](http://www.northropgrumman.com)).

**Audit Committee**

**Roles and Responsibilities**

Assist the Board in its oversight of (1) the integrity of the Company’s financial statements and the Company’s accounting and financial reporting processes; (2) the Company’s overall compliance with legal and regulatory requirements; (3) financial risk assessment and management; (4) the qualifications, performance and independence of the Company’s independent auditor, (5) the performance of the Company’s internal audit function; and (6) the Company’s system of disclosure controls and procedures and internal control over financial reporting, by:

**2014 Committee Members\***

- William H. Hernandez (chair)
- Victor H. Fazio
- Madeleine A. Kleiner
- Gary Roughead
- Thomas M. Schoewe

**Number of meetings in 2014: 9**

**Independence, Financial Literacy and Audit Committee Financial Experts**

appointing, retaining, overseeing, evaluating and terminating, if necessary, the independent auditor

reviewing and pre-approving audit and non-audit services and related fees for the independent auditor

reviewing and discussing the Company’s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q

reviewing and discussing management’s assessment of, and report on, the effectiveness of the Company’s internal control over financial reporting at least annually and the independent auditor’s related report



<p>reviewing with the General Counsel, at least annually, the status of significant pending litigation and various other significant legal, compliance or regulatory matters</p>	<p>All members are independent and financially literate</p>
<p>reviewing with the Chief Compliance Officer, at least annually, the Company's compliance program</p>	<p>Ms. Kleiner and Messrs. Hernandez and Schoewe each qualifies as an Audit Committee Financial Expert.</p>
<p>discussing guidelines and policies regarding risk assessment and risk management</p>	<p>James S. Turley, who joined the Board and Audit Committee in February 2015, also qualifies as an Audit Committee Financial Expert.</p>
<p>reviewing any significant issues raised by the internal audit function and, as appropriate, management's actions for remediation</p>	<p>James S. Turley, who joined the Board and Audit Committee in February 2015, also qualifies as an Audit Committee Financial Expert.</p>
<p>establishing and periodically reviewing and discussing with management the Company's procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters</p>	<p>James S. Turley, who joined the Board and Audit Committee in February 2015, also qualifies as an Audit Committee Financial Expert.</p>

## Compensation Committee

### Roles and Responsibilities

Assist the Board in overseeing the Company's compensation policies and practices by:

approving the compensation for elected officers (other than the Chief Executive Officer, whose compensation is recommended by the Committee and approved by all the independent directors)

### 2014 Committee Members

Kevin W. Sharer (chair)\*

Donald E. Felsing

Bruce S. Gordon

Karl J. Krapek

Richard B. Myers

### Number of meetings in 2014: 7

administering incentive and equity compensation plans and approving payments or grants under these plans for elected officers (other than the Chief Executive Officer)

### Independence

All members are independent

\*The Board named Mr. Krapek as chairperson

recommending for approval compensation for the non-employee directors

producing an annual report on executive compensation for inclusion in the proxy statement

providing support to the Board in carrying out its overall responsibilities related to executive compensation

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I 13

**Table of Contents**

**CORPORATE GOVERNANCE**

**Governance Committee**

**Roles and Responsibilities**

Assist the Board in overseeing the Company's corporate governance practices by:

regularly reviewing the Company's corporate governance policies and practices, including the Principles of Corporate Governance, and recommending changes to the Board

reviewing and determining whether a director's service on another board or elsewhere is likely to interfere with the director's duties and responsibilities as a member of the Board

reviewing and making recommendations to the Board regarding the composition and size of the Board

reviewing and making recommendations to the Board regarding the criteria for Board membership, which should include among other things, diversity, experience and integrity

identifying and recommending to the Board qualified potential candidates to serve on the Board and its committees

coordinating the process for the Board to evaluate its performance

**2014 Committee Members**

Karl J. Krapek (chair)\*

Donald E. Felsing

Madeleine A. Kleiner

Kevin W. Sharer

**Number of meetings in 2014: 4**

**Independence**

All members are independent

\*The Board named Ms. Kleiner as chairperson effective March 2, 2015.

**Policy Committee**

**Roles and responsibilities**

Assist the Board in overseeing policy, government relations, corporate responsibility and other matters by:

**2014 Committee Members**

Bruce S. Gordon (chair)

Victor H. Fazio

William H. Hernandez

<p>identifying and evaluating global security, budgetary and other issues and trends that could impact the Company's business activities and performance</p>	<p>Richard B. Myers</p> <p>Gary Roughead</p> <p>Thomas M. Schoewe</p>
<p>reviewing and providing oversight over the Company's ethics and corporate responsibility policies and programs</p>	
<p>reviewing the Company's public relations and advertising strategy</p>	<p><b>Number of meetings in 2014: 4</b></p>
<p>reviewing and monitoring the Company's government relations strategy and political action committee</p>	<p><b>Independence</b></p>
<p>reviewing the Company's community relations activities</p>	<p>All members are independent</p>
<p>reviewing and providing oversight of the Company's environmental sustainability program</p>	

## Board Meetings and Executive Sessions

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

The Board 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 different elements of our business and an opportunity to interact with local management.

The Board meets in executive session (with the directors only and then with the independent directors only) following each in-person Board meeting and on other occasions as needed. The non-executive Chairperson or the Lead Independent Director presides over the executive sessions of the independent directors. The Audit Committee meets in executive session at each in-person Audit Committee meeting, and regularly requests separate executive sessions with representatives of our independent auditor 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 on a regular basis and may request a report from the Compensation Committee's compensation consultant in executive session. The Governance and Policy Committees also meet in executive session as they deem necessary.

## Meeting Attendance

During 2014, the Board held nine meetings. Each incumbent director serving in 2014 attended 75% or more 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, except where the failure to attend is due to unavoidable circumstances. All directors who were members of the Board in May 2014 attended the 2014 Annual Meeting.



**Table of Contents**

**CORPORATE GOVERNANCE**

**Director Independence**

The Board has established an objective that at least 75% of our directors be independent directors. The Board and Governance Committee annually review the relevant relationships or arrangements between the Company and our directors or parties related to the directors in determining whether such directors are independent. No director is considered independent unless the Board of Directors has determined that the director meets the independence requirements under applicable NYSE and SEC rules and under our categorical independence standards.

Our Principles of Corporate Governance provide that a director may be found not to qualify as an independent director if the director:

has within the prior three years been a director, executive officer or trustee of a charitable organization that received annual contributions from the 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;

has, or has an immediate family member who has, within the prior three years been employed by, a partner in or otherwise affiliated with any law firm or investment bank in which the director's or the immediate family member's compensation was contingent on the services performed for the Company or in which the director or the immediate family member personally performed services for the Company and the annual fees paid by the Company during the preceding fiscal year exceeded the greater of \$1 million or 2% of the gross annual revenues of such firm; and

has, or has an immediate family member who has, within the prior three years 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 material business relationship with (including significant purchasers of goods or services), or more than 5% ownership in, the Company.

**Independence Determination**

In connection with its annual independence review, the Board and Governance Committee considered the following relationships with organizations to which we have made payments in the usual course of our business in 2014.

Mr. Fazio's service as a member of the board of directors of the Center for Strategic and Budgetary Assessments;

Mr. Felsing's service as a member of the board of directors of Archer Daniels Midland;

Mr. Hernandez's service as a member of the board of directors of Black Box Corporation;

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General Myers service as a member of the board of directors of Aon Corporation and United Technologies Corporation; and

Mr. Turley's service as a member of the board of directors of Citigroup and Emerson Electric Company.

The Board of Directors also considered that Mr. Fazio, Mr. Gordon, Ms. Kleiner, Mr. Krapek, General Myers, Admiral Roughead, Mr. Sharer and Mr. Turley serve as members of the boards of, or are otherwise affiliated with, organizations to which the Company and/or the Northrop Grumman Foundation (Foundation) made contributions during 2014 in the usual course of our charitable contributions program, as well as in connection with our matching gifts program (which limits the contributions to \$10,000 per year per director). The amounts paid to these organizations were below the applicable thresholds under NYSE rules and our Principles of Corporate Governance.

Following its review and the recommendation of the Governance Committee, the Board affirmatively determined that all of the active directors, except Mr. Bush, are independent. The independent directors constitute approximately 92% of the members of our Board.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I 15

**Table of Contents**

**CORPORATE GOVERNANCE**

**Election Process**

Our Bylaws and Certificate of Incorporation provide for the annual election of directors. Each director will hold office until the next annual meeting of shareholders or until their earlier resignation or removal. Generally, in order to be elected, a director must receive more votes cast for than against his or her election, unless one or more shareholders provide notice of an intention to nominate one or more candidates to compete with the Board's nominees for election in accordance with the procedures set forth in the Company's corporate governance documents.

**Director Nominations**

The Governance Committee carefully considers all director nominee candidates on the basis of the candidate's background, qualifications and experience, and recommends to the Board the nominees for election. 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 for consideration. The Governance Committee considers shareholder nominees nominated in accordance with our Principles of Corporate Governance and in generally the same manner as any other candidates brought to the attention of the Governance Committee. Shareholder nominations made pursuant to our Principles of Corporate Governance must be addressed to the Governance Committee in care of the Corporate Secretary. Shareholders may also directly nominate director candidates in accordance with our Bylaws.

**Director Qualifications**

The Governance Committee is responsible for establishing the criteria for Board membership. In nominating directors, 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.

In evaluating candidates, the Governance Committee considers:

the personal integrity and the professional reputation of the individual;

the education, professional background and particular skills and experience most beneficial to service on the Board; and



whether a director candidate is willing to submit to and obtain a background check necessary for obtaining and retaining a top secret clearance.

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. To accomplish that objective, the Governance Committee seeks to achieve diversity including in race, gender and national origin, as well as in perspective, professional experience, education, skill and other qualities that contribute to our Board.

All new directors to the Board receive an orientation that is individually tailored, taking into account the director's experience, background, education and committee assignments.

## **Board Membership and External Relationships**

Directors are required to ensure that their other commitments, including for example, other board memberships, employment, partnerships and consulting arrangements, do not interfere with their duties and responsibilities as members of the Board. Directors must provide notice to the General Counsel prior to accepting an invitation to serve on the board of any other organization, and the General Counsel will advise the chairperson of the Governance Committee (or the chairperson of the Board, if notice is from the chairperson of the Governance Committee). A director should not accept service on such other board until being advised by the Chairperson of the Governance Committee (or Chairperson of the Board, as appropriate) that such engagement will not unacceptably create conflicts of interest or regulatory issues, conflict with Company policies or otherwise interfere with the director's duties and responsibilities as a member of the Board. Directors are also required promptly to inform the General Counsel if an actual or potential conflict of interest arises, or they are concerned that a conflict may arise or circumstances could otherwise interfere with their duties and responsibilities as a director. Directors should seek to avoid even an appearance of a conflict of interest.

Directors may not serve on more than three other boards of publicly traded companies in addition to our Board without the written approval of the Chairperson of the Governance Committee (or Chairperson of the Board, as appropriate). A director who is a full-time

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**Table of Contents**

**CORPORATE GOVERNANCE**

employee of our Company may not serve on the board of more than two other public companies unless approved by the Board. When a director's principal occupation or business association changes substantially during his or her tenure as a director, the Board expects the director to tender his or her resignation for consideration by the Governance Committee, which subsequently will recommend to the Board what action to take.

We have a retirement policy whereby a director will retire at the Annual Meeting following his or her 72nd birthday, unless the Board determines, based on special circumstances, that it is in the Company's best interest to request that the director serve beyond such date.

### **Effect of Failure to Receive the Required Vote or Obtain and Retain Security Clearance**

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, the failure to obtain top secret security clearance within 12 months of appointment or election to the Board or the failure to retain a top secret security clearance once obtained and (ii) the Board's acceptance of such resignation. If an incumbent director fails to receive the required vote for re-election or fails to obtain and retain a top secret security clearance, the Governance Committee will consider whether the Board should accept the director's resignation and will submit a recommendation for prompt consideration by the Board. The Board will decide whether to accept or reject a resignation within 90 days, unless the Board determines that compelling circumstances require additional time. The Governance Committee and the Board 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.

### **Board and Committee Self-Evaluation**

The Board of Directors and each Committee conducts annually a thorough self-assessment process. The self-assessment of the Board is overseen by the Governance Committee. As part of this assessment, the Lead Independent Director and chairperson of the Governance Committee facilitate a broad discussion of Board performance, held in executive session. Among other topics, the Board considers:

the Board's effectiveness in evaluating and monitoring the Company's business plan, long-term strategy and risks;

whether strategic and critical issues are being addressed by the Board in a timely manner;

whether the Board's expectations and concerns are openly communicated to and discussed with the CEO;

whether the directors collectively operate effectively as a Board;

whether the individual directors have the appropriate mix of attributes and skills to fulfill their duties as directors of the Company; and

whether there are adequate opportunities to raise questions and comments on issues, both inside and outside of Board meetings. Following this review, the Board discusses the results and identifies opportunities for improvement, including any necessary steps to implement such improvements.

Also as part of the annual self-assessment process, each director completes an individual director evaluation for each of the other directors. These assessments include, among other topics, each director s:

understanding of the Company s overall business and risk profile and its significant financial opportunities and plans;

engagement during meetings;

analysis of benefits and risks of courses of action considered by the Board; and

appropriate respect for the views of other Board members.

The Lead Independent Director or the Chairperson meets with each director individually to discuss the results of his or her assessment. The Lead Independent Director or the Chairperson also reports generally on the overall results of these discussions to the Board in executive session.

In addition, each of the Committees conducts an annual self-assessment. During an executive session led by the Committee chairperson, the Committee discusses, among other topics, whether the quality of participation and discussion at the Committee

[NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT](#) | 17

**Table of Contents**

**CORPORATE GOVERNANCE**

meetings is effective in facilitating the Committee's obligations under its charter; the opportunity to engage in strategic discussion; and whether the Committee is covering the right topics in the right amount of detail. Following this discussion, the Committee develops and implements a list of action items, as appropriate.

**Succession Planning**

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

to evaluate the Chief Executive Officer annually based on a specific set of performance objectives;

for the Chief Executive Officer annually to provide an assessment of persons considered potential successors to various senior management positions and discuss the results of these reviews with the Board; and

to support continuity of top leadership and Chief Executive Officer succession, including through annual reports to the Board.

**Departure and Election of Directors**

During 2014, the following changes occurred with respect to the composition of our Board:

In accordance with our retirement policy described above, Stephen Frank and Aulana Peters, directors who served during 2013, did not stand for reelection at the 2014 Annual Meeting. The Board determined that it is in the best interest of the Company and our shareholders for Mr. Fazio and General Myers to continue to serve as directors beyond their 72nd birthday and stand for reelection in 2015.

In February 2015, Kevin Sharer notified the Board of his decision not to seek re-election at the Annual Meeting. He will retire from the Board effective the day of the Annual Meeting. Also in February 2015, James S. Turley was elected to the Board. In March 2015, Marianne C. Brown was elected to the Board.

**Communications with the Board of Directors**

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Any interested person may communicate with any of our directors, our Board as a group, our non-employee directors as a group or our Lead Independent Director 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 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***.

18 | [NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT](#)

**Table of Contents****COMPENSATION OF DIRECTORS**

The Compensation Committee is responsible for reviewing and recommending the compensation of the members of our Board. In May 2014, the Compensation Committee recommended to the Board, and the Board approved, the current non-employee director fee structure, effective May 21, 2014. The table below lists the annual fees payable to our non-employee directors from January 1, 2014 to May 20, 2014 under the prior fee structure and the annual fees payable under the current fee structure effective May 21, 2014.

Compensation Element	Amount (\$)	Amount (\$)
	(1/1/14 - 5/20/14)	(5/21/14 - 12/31/14)
Annual Cash Retainer	115,000	120,000
Annual Retainer for Lead Independent Director	25,000	25,000
Audit Committee Retainer	10,000	10,000
Audit Committee Chair Retainer	20,000	20,000
Compensation Committee Chair Retainer	15,000	15,000
Governance Committee Chair Retainer	10,000	15,000
Policy Committee Chair Retainer	7,500	7,500
Annual Equity Grant*	130,000	135,000

\* The annual equity grant is deferred into a stock unit account pursuant to the 2011 Long-Term Incentive Stock Plan (2011 Plan) as described below. The Northrop Grumman Equity Grant Program for Non-Employee Directors sets forth the terms and conditions of the equity awards granted to non-employee directors under 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, non-employee directors are awarded an annual equity retainer of \$135,000 in the form of deferred stock units (Automatic Stock Units). The Automatic Stock Units are paid out in the form of common stock at the conclusion of the director's Board service, or earlier, as specified by the director, after he or she has completed five years of service on the Board of Directors. Each director may also 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 deferred 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. Beginning in 2015, directors may elect to defer to a later year all or a portion of their remaining annual cash retainer and any other fees payable for their Board service into alternative investment options similar to the options available under the Company's Savings Excess Plan.

Deferral elections are 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.

Non-employee directors are eligible to participate in our Matching Gifts Program for Education. Under this program, the Northrop Grumman Foundation matches director contributions, up to \$10,000 per year per director, to eligible educational programs in accordance with the program.

**Stock Ownership Requirements and Anti-Hedging and Pledging Policy**

Non-employee 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.

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Company policy prohibits members of the Board of Directors from pledging or engaging in hedging transactions with respect to any of their Company stock, continuing to align the interest of our Board of Directors with those of our shareholders. None of the shares of Company common stock held by our directors are pledged or subject to any hedging transaction.

[NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT](#) 1 19

**Table of Contents****COMPENSATION OF DIRECTORS****2014 Director Compensation**

The table below provides information on the compensation of our non-employee directors for the year ended December 31, 2014.

Name	Fees Earned or Paid in Cash (\$ (1))	Stock Awards (\$ (2))	All Other Compensation (\$ (3))	Total (\$)
Marianne C. Brown (4)	0	0	0	0
Victor H. Fazio	131,164	130,000	16,835	277,999
Donald E. Felsing	143,082	133,082	7,521	283,685
Stephen E. Frank (5)	51,542	50,714	11,220	113,476
Bruce S. Gordon	128,664	130,000	2,897	261,561
William H. Hernandez	148,387	130,000	12	278,399
Madeleine A. Kleiner	131,164	130,000	7,897	269,061
Karl J. Krapek	131,164	133,082	9,547	273,793
Richard B. Myers	121,164	130,000	15,274	266,438
Aulana L. Peters (5)	48,764	50,714	11,181	110,659
Gary Roughead	131,164	130,000	301	261,465
Thomas M. Schoewe	131,164	130,000	502	261,666
Kevin W. Sharer	133,082	133,082	23,017	289,181
James S. Turley (6)	0	0	0	0

- (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 and committee chair retainers and any applicable Lead Independent Director or Chairperson retainers. As described above, a director may elect to defer all or a portion of his or her annual retainer into a deferred stock unit account. Amounts deferred as Elective Stock Units are reflected in this column.
- (2) Amounts in this column represent the target value of Automatic Stock Units awarded to each of our non-employee directors in 2014 under the 2011 Plan. The amount reported for each director reflects the aggregate fair value of the Automatic Stock Units on the grant date, as determined under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation, excluding any assumed forfeitures. The grant date fair value assumes the value of dividend equivalents accrued directly on the awarded units. Assumptions used to calculate these amounts are included in Note 13 of our consolidated financial statements included in our 2014 Form 10-K. The aggregate number of Automatic Stock Units and Elective Stock Units held by each director as of December 31, 2014 is provided in the Deferred Stock Units table below.