

NORTHROP GRUMMAN CORP /DE/

Form DEF 14A

April 06, 2015

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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 (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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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

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

<b>70%</b> of Annual LTIP Equity Grant <b>TSR</b> <b>Performance-</b> <b>Based</b>	<b>Stock</b> <b>Ownership</b> Guidelines for All Officers: <b>CEO 7x</b> <b>NEOs 3x</b>	<b>3-Year</b> <b>Mandatory</b> <b>Holding Period</b> for 50% of Vested Shares	<b>Recoupment</b> <b>Policy</b> on Incentive Payouts	<b>No Individual</b> <b>Change in</b> <b>Control</b> Agreements
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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2015 PROXY STATEMENT I i

**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

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**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.

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