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 x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

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

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §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):

x No fee required.

¨ 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:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ 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:

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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*.

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

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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

Corporate Vice President and Secretary

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*.

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

70% of Annual LTIP Equity Grant **TSR Performance-Based**	**Stock Ownership** Guidelines for All Officers: **CEO 7x NEOs 3x**	**3-Year Mandatory Holding Period** for 50% of Vested Shares	**Recoupment Policy** on Incentive Payouts	**No** Individual **Change in Control** Agreements

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PROXY STATEMENT SUMMARY

Board Nominees (pages 4-10)

Name	Age	Director since	Professional Background	Independent Yes	Independent No	Committee Memberships
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. Felsinger	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

Place: Northrop Grumman Corporation

2980 Fairview Park Drive

Falls Church, Virginia 22042

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

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

Voting Matters and Board Recommendations

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

By Mail - request a paper copy of the proxy materials via *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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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?

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:

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

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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* 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* 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* 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*. 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.

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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.

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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

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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

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

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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

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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

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

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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

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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

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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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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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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. Felsinger 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.

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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*).

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:

- 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

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

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

Compensation Committee

Roles and Responsibilities	**2014 Committee Members**
Assist the Board in overseeing the Company s compensation policies and practices by:	Kevin W. Sharer (chair)*
	Donald E. Felsinger
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)	Bruce S. Gordon
	Karl J. Krapek
establishing stock ownership guidelines and reviewing ownership levels on an annual basis	Richard B. Myers
administering incentive and equity compensation plans and approving payments or grants under these plans for elected officers (other than the Chief Executive Officer)	**Number of meetings in 2014:** 7
recommending for approval compensation for the non-employee directors	**Independence**
producing an annual report on executive compensation for inclusion in the proxy statement	All members are independent
providing support to the Board in carrying out its overall responsibilities related to executive compensation	*The Board named Mr. Krapek as chairperson

effective March 2, 2015.

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CORPORATE GOVERNANCE

Governance Committee

Roles and Responsibilities	2014 Committee Members
Assist the Board in overseeing the Company s corporate governance practices by:	Karl J. Krapek (chair)* Donald E. Felsinger Madeleine A. Kleiner Kevin W. Sharer
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	**Number of meetings in 2014:** 4
reviewing and making recommendations to the Board regarding the composition and size of the Board	**Independence**
reviewing and making recommendations to the Board regarding the criteria for Board membership, which should include among other things, diversity, experience and integrity	All members are independent
identifying and recommending to the Board qualified potential candidates to serve on the Board and its committees	*The Board named Ms. Kleiner as chairperson effective March 2, 2015.
coordinating the process for the Board to evaluate its performance	

Policy Committee

Roles and responsibilities	2014 Committee Members
Assist the Board in overseeing policy, government relations, corporate responsibility and other matters by:	Bruce S. Gordon (chair) Victor H. Fazio William H. Hernandez

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

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.

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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. Felsinger 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;

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.

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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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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

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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

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***.

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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 ($) (1/1/14 - 5/20/14)	Amount ($) (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.

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.

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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. Felsinger	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.

(3) Amounts reflected in the All Other Compensation column include the estimated dollar value of additional stock units credited to each non-employee director as a result of dividend equivalents earned, directly or indirectly, on reinvested dividend equivalents as such amounts are not assumed in the grant date fair value of the Automatic Stock Units shown in the Stock Awards column.
Amounts shown also include matching contributions made through our Matching Gifts Program for Education discussed above as follows: Mr. Fazio, $8,500; Mr. Frank, $10,000; Ms. Kleiner, $5,000; Mr. Krapek, $5,000; General Myers, $10,000; Ms. Peters, $10,000 and Mr. Sharer,

$10,000.

(4) Ms. Brown was elected to the Board of Directors effective March 19, 2015.

(5) Ms. Peters and Mr. Frank attained the Board s retirement age of 72 prior to the 2014 Annual Meeting and did not stand for reelection at the 2014 Annual Meeting.

(6) Mr. Turley was elected to the Board of Directors effective February 19, 2015.

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COMPENSATION OF DIRECTORS

Deferred Stock Units

As of December 31, 2014, the non-employee directors had the following aggregate number of deferred stock units accumulated in their deferral accounts for all years of service as a director, including additional stock units credited as a result of dividend equivalents earned on the stock units.

Name	Automatic Stock Units	Elective Stock Units	Total
Marianne C. Brown*	0	0	0
Victor H. Fazio	13,097	7,245	20,342
Donald E. Felsinger	16,412	13,958	30,370
Bruce S. Gordon	13,221	0	13,221
William H. Hernandez	1,346	0	1,346
Madeleine A. Kleiner	13,221	0	13,221
Karl J. Krapek	13,244	9,004	22,248
Richard B. Myers	18,208	0	18,208
Gary Roughead	4,386	0	4,386
Thomas M. Schoewe	5,525	0	5,525
Kevin W. Sharer	20,110	18,659	38,769
James S. Turley*	0	0	0

* Ms. Brown and Mr. Turley were elected to the Board of Directors effective March 19, 2015 and February 19, 2015, respectively.

Director Equity Plan

Under the Northrop Grumman Non-Employee Directors Equity Participation Plan (Director Equity Plan), non-employee directors had an amount equal to 50% of their annual retainer credited to an equity participation account and converted into stock units based on the then fair market value (as defined in the Director Equity Plan) of our common stock. No new participants have been added to the Director Equity Plan since May 31, 2005, and no new new annual accruals have been credited to the then-existing participants in the Director Equity Plan since that time. However, directors that served on the Board in and before 2005 continue to be credited with dividend equivalents on the cumulative stock units held in their equity participation accounts until the director terminates service on the Board. Messrs. Fazio and Sharer are the only directors that earn dividend equivalents under the Director Equity Plan. No other current director participates in the Director Equity Plan.

Generally, if a participating non-employee director terminates service on the Board of Directors after completion of at least three consecutive years of service or retires from the Board of Directors as a result of a total disability or a debilitating illness as defined in the Director Equity Plan, the participant will be entitled to receive the full balance of the participant s equity participant account in annual installments. Upon a change in control of the Company, as defined in the Director Equity Plan, the participant will immediately be entitled to receive the full balance of the equity participation account under the Director Equity Plan regardless of the number of years of consecutive service, although payment of his or her benefits will not commence until the termination of his or her service. No new annual accruals have been credited to the Director Equity Plan; however, the remaining director participating in the Director Equity Plan receives quarterly dividend accruals on the balance held in his equity participation accounts.

1993 Directors Plan

Under the Northrop Grumman 1993 Stock Plan for Non-Employee Directors, as amended (the 1993 Plan), directors could elect to defer payment of all or a portion of their retainer fees not automatically paid in shares of common stock. This deferred compensation was payable in shares of common stock at the conclusion of a director-specified deferral period. In 2005, the 1993 Plan was amended. Dividend equivalents are paid on amounts deferred prior to the 2005 amendment. Mr. Sharer is the only director that continues to earn dividend equivalents on amounts deferred under the 1993 Plan prior to this date.

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TRANSACTIONS WITH RELATED PERSONS AND CONTROL PERSONS

Related Person Transaction Policy

The Company has a written policy and procedures for the review, approval and ratification of transactions among our Company and our directors, executive officers and related persons, approved by the Board. A copy of the policy is available on the Investor Relations section of our website (*www.northropgrumman.com*). The policy requires that all related person transactions be reviewed and approved or ratified, as applicable, by the Governance Committee. The Governance Committee may approve or ratify related person transactions at its discretion if the transaction is deemed fair and reasonable to the Company.

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

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

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

The policy requires each director and executive officer to complete an annual questionnaire to identify his or her related interests and persons and to notify the Corporate Secretary of any changes to that information.

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

Related Person Transactions

In 2014, none of our directors or executive officers was a participant in or had a relationship regarded as a related person transaction, as considered under our Related Person Transaction Policy and applicable regulations of the SEC and the NYSE listing standards.

Compensation Committee Interlocks and Insider Participation

During 2014, Messrs. Felsinger, Gordon, Krapek, Myers and Sharer served as members of the Compensation Committee. During 2014, no member of the Compensation Committee had a relationship with the Company or any of our subsidiaries, other than as directors and shareholders, and no member was an officer or employee of the Company or any of our subsidiaries, a participant in a related person transaction or an executive officer of another entity, where one of our executive officers serves on the board of directors that would constitute a related party transaction or raise concerns of a compensation committee interlock.

Indemnification Agreements

Our Bylaws require us generally to indemnify our directors and executive officers to the fullest extent permitted by Delaware law. Additionally, as permitted by Delaware law, we have entered into indemnification agreements with each of our directors and elected officers. Under the indemnification agreements, we have agreed to hold harmless and indemnify each indemnitee, generally to the fullest extent permitted by Delaware law, against expenses, liabilities and loss incurred in connection with threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative to which the indemnitee is made a party by reason of the fact that the indemnitee is or was a director or officer of the Company or any other entity at our request, provided however, that the indemnitee acted in good faith and in a manner reasonably believed to be in the best interests of our Company.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

Based on our review of Forms 3, 4 and 5 we have received or have filed on behalf of our executive officers and directors, and of written representation from those persons that they were not required to file a Form 5, we believe that all required filings were made on a timely basis during the year ended December 31, 2014.

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VOTING SECURITIES AND PRINCIPAL HOLDERS

Stock Ownership of Certain Beneficial Owners

The following entities beneficially owned, to the best of our knowledge, more than five percent of the outstanding common stock as of December 31, 2014. All information shown is based on information reported by the filer on a Schedule 13G filed with the SEC on the dates indicated in the footnotes below.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership of Common Stock	Percent of Class
BlackRock, Inc. 55 East 52nd Street, New York, NY 10022	18,158,299 (1)	9%
State Street Corporation One Lincoln Street, Boston, MA 02111	17,030,668 (2)	9%
The Vanguard Group 100 Vanguard Blvd., Malvern, PA 19355	12,026,720 (3)	6%

(1) This information was provided by BlackRock, Inc. (BlackRock) in a Schedule 13G/A filed with the SEC on January 15, 2015. According to BlackRock, as of December 31, 2014, BlackRock had sole voting power over 15,694,039 shares and sole dispositive power over 18,158,299 shares.

(2) This information was provided by State Street Corporation (State Street) in a Schedule 13G filed with the SEC on February 12, 2015. According to State Street, as of December 31, 2014, State Street had shared voting and dispositive power over 17,030,668 shares. This total includes 13,423,493 shares held in the Defined Contributions Master Trust for the Northrop Grumman Savings Plan and the Northrop Grumman Financial Security and Savings Program, for which State Street Bank and Trust Company acts as trustee and investment manager.

(3) This information was provided by The Vanguard Group (Vanguard), in a Schedule 13G/A filed with the SEC on February 10, 2015. According to Vanguard, as of December 31, 2014, Vanguard had sole voting power over 349,462 shares, sole dispositive power over 11,696,567 shares and shared dispositive power over 330,153 shares.

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VOTING SECURITIES AND PRINCIPAL HOLDERS

Stock Ownership of Officers and Directors

The following table shows beneficial ownership of our common stock as of March 24, 2015 by each of our current directors, our NEOs and all directors and executive officers as a group. As of March 24, 2015, there were 196,445,226 shares of our common stock outstanding.

None of the persons named below beneficially owns in excess of 1% of our outstanding common stock. Unless otherwise indicated, each individual has sole investment power and sole voting power with respect to the shares owned by such person.

	Shares of Common Stock Beneficially Owned		Share Equivalents (1)	Shares Subject To Options (2)	Total	
Non-Employee Directors						
Marianne S. Brown	0		0	0	0	
Victor H. Fazio	17,347	(3)	17,804	0	35,151	
Donald E. Felsinger	4,640	(4)	30,370	0	35,010	
Bruce S. Gordon	0		13,221	0	13,221	
William H. Hernandez	1,000		1,346	0	2,346	
Madeleine A. Kleiner	0		13,221	0	13,221	
Karl J. Krapek	4,304		20,293	0	24,597	
Richard B. Myers	1,011		17,197	0	18,208	
Gary Roughead	0		4,386	0	4,386	
Thomas M. Schoewe	3,160		5,525	0	8,685	
Kevin W. Sharer	2,995		38,769	0	41,764	
James S. Turley	0		0	0	0	
Named Executive Officers						
Wesley G. Bush (5)	466,269	(6)	5,293	0	471,562	
James F. Palmer	222,074		0	0	222,074	
Gloria A. Flach	35,364		0	64,256	99,620	
Linda A. Mills	143,264	(7)	0	32,544	175,808	
Thomas E. Vice	57,651		0	14,344	71,995	
Other Executive Officers	300,133		15,274	5,845	321,252	
All Directors and Executive Officers as a Group (28 persons)	1,259,212		182,699	116,989	1,558,900	(8)

(1) Share equivalents for directors represent non-voting deferred stock units acquired under the 2011 Plan and the 1993 Directors Plan, some of which are paid out in shares of common stock at the conclusion of a director-specified deferral period, and others are paid out upon termination of the director s service on the Board of Directors. Certain of the NEOs hold share equivalents with pass-through voting rights in the Northrop Grumman Savings Plan or the Northrop Grumman Financial Security and Savings Program.

(2) These shares subject to options are either currently exercisable or exercisable within 60 days of March 24, 2015.

(3) Includes 932 shares held in our Dividend Reinvestment Plan.

(4) Includes 770 shares each held in the Courtney Strickland and Stephanie Strickland trust, respectively, for which Mr. Felsinger s wife serves as trustee and 1,550 shares each held in the Gregory Felsinger and Michael Felsinger trust, respectively, for which Mr. Felsinger serves as trustee.

(5) Mr. Bush is also Chairman of the Board of Directors.

(6) Includes 304,780 shares held in the W.G. and N.F. Bush Family Trust, 50,744 shares held in the Bush Trust Number 4 Trust, and 50,745 shares held in the Wesley G. Bush Revocable Trust, each of which Mr. Bush and his wife serve as trustees.

(7) These shares are held in the Linda Anne Mills Living Trust.

(8) Total represents 0.8% of the outstanding common stock as of March 24, 2015.

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EQUITY COMPENSATION PLAN INFORMATION

Equity Compensation Plan Information

We currently maintain four equity compensation plans: the 2011 Plan, the 2001 Long-Term Incentive Stock Plan (2001 Plan), the 1995 Directors Plan and the 1993 Directors Plan. Each of these plans has been approved by our shareholders. The following table sets forth the number of shares of our common stock subject to outstanding stock options, the weighted-average exercise price of the outstanding stock options and the number of shares remaining available for future award grants under these equity compensation plans as of December 31, 2014.

Plan category	Number of shares of common stock to be issued upon exercise of outstanding options and payout of outstanding awards (1)	Weighted-average exercise price of outstanding options (2) ($)	Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares reflected in the first column) (3)	
Equity compensation plans approved by shareholders	6,329,366	54	24,738,172	
Equity compensation plans not approved by shareholders	N/A	N/A	N/A	
	6,329,366	54	24,738,172	(4)

(1) Of these shares, 301,949 were subject to stock options then outstanding under the 2001 Plan. In addition, this number includes 2,649,634 shares that were subject to outstanding stock awards granted under the 2011 Plan, 158,756 shares that were subject to outstanding stock awards granted under the 2001 Plan, and reflects 1,884,839 awards earned at year end but pending distribution subject to final performance adjustments, and 167,636 shares subject to outstanding stock units credited under the 1993 Directors Plan. Additional performance shares of 1,166,552 reflect the number of shares deliverable under payment of outstanding restricted performance stock rights, assuming maximum performance criteria have been achieved.

(2) This number reflects the weighted-average exercise price of outstanding stock options and has been calculated exclusive of outstanding restricted performance stock right and restricted stock right awards and exclusive of stock units credited under the 2011 Plan, the 2001 Plan and the 1993 Directors Plan.

(3) Of the aggregate number of shares that remained available for future issuance, 24,738,172 were available under the 2011 Plan as of December 31, 2014. No new awards may be granted under the 1993 Directors Plan or the 2001 Plan.

(4) After giving effect to our February 2015 awards, the number of shares of common stock remaining for future issuance would be 21,657,707 (assuming maximum payout of such awards).

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PROPOSAL TWO:

ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

We are providing our shareholders with the opportunity to cast a non-binding, advisory vote on the compensation of our NEOs. This advisory vote, commonly known as say on pay, gives our shareholders the opportunity to express their view on our 2014 executive compensation programs and policies for our NEOs. The vote does not address any specific item of compensation and is not binding on the Board; however, as an expression of our shareholders view, the Compensation Committee seriously considers the vote when making future executive compensation decisions.

We believe our compensation programs reflect responsible, measured practices that effectively incentivize our executives to dedicate themselves fully to value creation for our shareholders, customers and employees. Our pay practices are aligned with our shareholders interests and with industry practice and are governed by a set of strong policies and practices. Examples include:

- Double-trigger provisions for change in control situations, and no excise tax gross-ups for payments upon termination after a change in control;
- A recoupment policy applicable to cash and equity incentive compensation payments;
- Stock ownership guidelines of 7x base salary for the CEO and 3x base salary for other NEOs, and stock holding requirements of three years from the vesting date; and
- Prohibitions on hedging or pledging of company stock.

For a more extensive list of our best practices, refer to page 29 of this Proxy Statement. In addition, our Compensation Discussion and Analysis (CD&A) provides a detailed discussion of our performance-based approach to executive compensation. We encourage you to read the CD&A, this Proxy Statement and our 2014 Form 10-K, which describes our business and 2014 results in more detail.

Recommendation

The compensation of our executives is aligned to performance, is sensitive to shareholder returns, appropriately motivates and retains our executives, and is a competitive advantage in attracting and retaining the high caliber talent necessary to drive our business forward and build sustainable value for our shareholders. Accordingly, the Board recommends that shareholders approve the following resolution:

RESOLVED, that, as an advisory matter, the shareholders of Northrop Grumman Corporation approve the compensation paid to the Company s named executive officers as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion.

Vote Required

Approval of Proposal Two requires that the votes cast for the proposal exceed the votes cast against the proposal. Abstentions and broker non-votes will have no effect on this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR PROPOSAL TWO.

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COMPENSATION DISCUSSION AND ANALYSIS

In this Compensation Discussion and Analysis (CD&A), we provide an overview of our executive compensation programs and the underlying philosophy used to develop the programs. This section details the material components of our executive compensation programs for our 2014 Named Executive Officers (NEOs) and explains how and why the Compensation Committee of our Board (the Compensation Committee) arrived at certain specific compensation policies and decisions involving the NEOs. The 2014 compensation of our NEOs is provided in the Summary Compensation Table and other compensation tables contained in this Proxy Statement.

2014 NEOs

WESLEY G. BUSH

JAMES F. PALMER

GLORIA A. FLACH

LINDA A. MILLS

THOMAS E. VICE

Compensation Committee Report

The Compensation Committee reviewed and discussed the CD&A as required by Item 402(b) of Regulation S-K of the Securities and Exchange Commission with management. Based on such review and discussion, the Compensation Committee recommended to the Board that this CD&A be included in this Proxy Statement. The Board has approved the recommendation.

COMPENSATION COMMITTEE

KARL J. KRAPEK, CHAIRMAN

DONALD E. FELSINGER

BRUCE S. GORDON

KEVIN W. SHARER

RICHARD B. MYERS

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Summary of Our Executive Compensation Programs

Our executive compensation philosophy is to provide a complementary set of compensation programs to our NEOs with attractive, flexible and market-based total compensation tied to annual and long-term relative performance and aligned with the interests of our shareholders. The key elements of our executive compensation programs for our NEOs are summarized below.

	Compensation Element	Purpose	Key Characteristics
Fixed Component	Base Salary	Compensate fairly and competitively	Determined by responsibility, level of position, competitive pay assessment and individual performance
	Long-Term Incentive Plan (LTIP) Restricted Stock Rights (RSRs)	Link the interests of our executive officers to shareholders and retain executive talent	30% of annual LTIP grant Three-year cliff vesting
Performance-Based Component	Annual Incentive Plan (AIP)	Motivate and reward achievement of annual business objectives	Financial Metrics*: Pension-adjusted Operating Margin (OM) Rate, Free Cash Flow Conversion Rate, Awards (Book-to-bill), and Pension-adjusted Net Income Subject to downward adjustment for failure to achieve non-financial objectives
	LTIP Restricted Performance Stock Rights (RPSRs)	Link the interests of our executive officers to shareholders and retain executive talent	70% of annual LTIP grant Three-year performance period Actual shares earned based on TSR relative to Performance Peer Group and S&P Industrials

* Some of these financial metrics are non-GAAP financial measures. For more information, see Miscellaneous - Use of Non-GAAP Financial Measures.

Our Compensation Pay Practices (pages 32-42)

Our compensation programs incorporate best practices, including the following:

Best Practices

ü Pay for Performance	ü Annual Peer Group Review	ü No Hedging or Pledging of Company Stock
ü Above Target and Maximum Annual Incentive Payouts Only When We Outperform Our Peer Benchmarks	ü Independent Consultant Reports Directly to the Compensation Committee	ü No Dividend Equivalents Paid Prior to Vesting (Dividend Equivalents Starting with 2012 Grants)
ü Long-Term Incentives Based on Relative TSR	ü Double Trigger Provisions for Change in Control	ü No Individual Change in Control Agreements
ü Cap on Annual Bonuses and Performance-Based Long-Term Incentive Share Payouts	ü Recoupment Policy on Incentive Compensation Payments	ü No Excise Tax Gross-ups for Payments Received Upon Termination After a Change in Control
ü Total Direct Target Compensation Aimed at Market Median	ü Stock Ownership Guidelines and Stock Holding Requirements	ü Regular Risk Assessments Performed
		ü No Employment Contracts for CEO or NEOs

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COMPENSATION DISCUSSION AND ANALYSIS | EXECUTIVE SUMMARY

2014 Performance Highlights

Our focus on performance resulted in another year of strong financial results. Diluted EPS increased 17% to $9.75. We improved our pension-adjusted operating margin rate 20 basis points to 12.2%; cash provided by operations totaled approximately $2.6 billion and free cash flow totaled $2.0 billion. We continued to use our cash to repurchase shares. We repurchased 21.4 million shares for $2.7 billion, reducing weighted average shares outstanding by 9%. We raised our quarterly dividend 15% to an annualized rate of $2.80 per share, our eleventh consecutive annual dividend increase. In total we returned $3.2 billion to shareholders through dividends and share repurchases, or approximately 160% of 2014 Free Cash Flow.

EPS Growth

2014 Diluted EPS grew 17%

2014 Pension-adjusted Diluted EPS grew 13%

EPS grew despite lower sales

EPS growth reflects strong operating performance and 9% reduction in weighted average shares outstanding

Per Share Cash Metrics

2014 Free Cash Flow per Share up 6%

$15.23 per share distributed to shareholders through dividends and share repurchases

Quarterly dividend increased 15% to $2.80 annualized

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Performance Against Incentive Compensation Metrics

For AIP, 2014 performance exceeded targets for three out of the four financial metrics, with the following results:

- Pension-adjusted OM Rate: 12.2%
- Free Cash Flow Conversion Rate: 98%
- Awards (Book-to-bill): 104%
- Pension-adjusted Net Income: $1.89 billion

For LTIP, our three-year TSR score was in the 100th percentile as measured against the Performance Peer Group identified on page 34 and the 94th percentile as measured against the S&P industrials.

Compensation Mix

We have a balanced pay for performance compensation structure that places an appropriate level of compensation at risk, based on our financial and non-financial performance measures and relative TSR. The AIP award is determined by our financial performance and is subject to a downward only adjustment for performance against non-financial goals. For NEOs, the value of LTIP RPSR compensation is determined by relative TSR. Achievement of both annual incentive goals and increased shareholder value will result in individual awards commensurate with results; however, if absolute TSR is negative, the maximum RPSR payout is capped at 100%, even if the relative TSR would have resulted in a higher score. The following charts show performance-based compensation elements at target values.

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Compensation Philosophy and Objectives

We provide an attractive, flexible and market-based total compensation program tied to performance and aligned with the interests of our shareholders. Our objective is to recruit and retain the caliber of executives and other key employees capable of achieving top performance and generating value for our shareholders, customers and employees.

Our goal is to lead our industry in sustainable performance, while maintaining strong, enduring values. The targets and thresholds of our AIP are based on the performance of our peers. Our LTIP is based on total shareholder return relative to our Performance Peer Group and the S&P Industrials. For each plan, we have selected metrics that drive shareholder value and measure our performance against our competitors. Our executive compensation and benefit programs are guided by the following principles:

Pay for Performance

Incentive plans are based on peer-benchmarked performance metrics.

Leadership Retention and Succession

Compensation is designed to be competitive within our industry and retentive.

Programs are designed to motivate and reward NEOs for delivering operational and strategic performance over time.

Sustained Performance

Our AIP includes both financial and non-financial metrics to ensure we are building a strong foundation for long-term sustainability and shareholder value.

Alignment with Shareholder Interests

Our compensation structure places an appropriate amount of compensation at risk.

At-risk compensation is based on financial and non-financial performance measures and relative TSR.

A significant portion of compensation is delivered in equity, the value of which provides alignment with shareholder returns.

Stock ownership guidelines, holding requirements for equity awards and our recoupment policy further align executive and shareholder interests.

Benchmarking

Compensation programs and financial objectives are evaluated on an annual basis and are modified in accordance with industry and business conditions.

We seek to outperform our peers (a group of top global defense companies identified on page 34 of this Proxy Statement we refer to as the Performance Peer Group).

We use a Target Industry Peer Group for broader market executive compensation analyses that includes companies based on a peer-of-peers analysis.

Risk Management

The Board evaluates the risk profile of the Company s compensation programs on an ongoing basis, in part to mitigate concerns of executives being overly incentivized to achieve near-term stock price growth.

Both the Compensation Committee and its independent compensation consultant evaluate the mix of at-risk compensation linked to stock appreciation.

The Compensation Committee annually reviews the design of our compensation programs, practices and policies, and together with the independent compensation consultant assesses its risk. Based on the review, the Compensation Committee determined that the risk profile is appropriate and that substantial risk management features are incorporated into our compensation programs.

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COMPENSATION DISCUSSION AND ANALYSIS | KEY PRINCIPLES

How We Make Compensation Decisions

Role of the Compensation Committee

The Compensation Committee is responsible for overseeing our compensation policies, incentive and equity compensation plans and approving payments or grants under these plans for elected officers (other than the CEO). The Compensation Committee recommends the compensation for our CEO to the independent directors of the Board for approval and approves the compensation for the other NEOs. Among its duties, the Compensation Committee:

- reviews market data and other input from its independent compensation consultant;
- reviews and approves incentive goals and objectives (CEO goals and objectives are set by the independent directors);
- evaluates and approves executive benefit and perquisite programs; and
- evaluates the competitiveness of each elected officer s total compensation package.

For more information regarding the composition of the Compensation Committee and its duties and responsibilities, see Corporate Governance Committees of the Board of Directors Compensation Committee. The Compensation Committee s charter can be found on the Investor Relations section of our website (*www.northropgrumman.com*).

Role of the Independent Compensation Consultant

The Compensation Committee retains an independent compensation consultant, Frederic W. Cook & Co. (the Compensation Consultant). The Compensation Consultant reports directly to the Compensation Committee, and the Compensation Committee may replace the Compensation Consultant or hire additional consultants at any time. A representative of the Compensation Consultant regularly attends meetings of the Compensation Committee and communicates with the Compensation Committee Chairperson between meetings; however, the Compensation Committee and the independent directors of the Board make final decisions on the compensation actions for the NEOs. The Compensation Consultant may meet in executive session with the Compensation Committee. Other than the fees paid to the Compensation Consultant pursuant to its engagement by the Compensation Committee for its advice on executive and director compensation, the Compensation Consultant does not receive any fees or income from the Company.

The Compensation Consultant s role is to provide an independent review of market data and to advise the Compensation Committee on the levels and structure of our executive compensation policies and procedures including compensation matters for NEOs. The Compensation Consultant utilizes aerospace and defense industry market data and conducts an independent review of publicly available data.

The specific roles of the Compensation Consultant include:

reviewing our total compensation philosophy, peer groups and target competitive positioning and advising the Compensation Committee;

identifying market trends and practices and advising the Compensation Committee on such trends and practices;

providing proactive advice to the Compensation Committee on best practices for Board governance of executive compensation, as well as any areas of concern or risk that may exist or be anticipated in the design of our executive compensation programs; and

serving as a resource to the Compensation Committee Chairperson on setting agenda items for Compensation Committee meetings and undertaking special projects.

In February 2015, the Compensation Committee determined that there were no relationships between the Compensation Consultant and the Company or any of the Company s directors or executive officers that raise a conflict of interest.

Role of Management

Our CEO makes compensation-related recommendations for elected officers to the Compensation Committee for its review and approval based on the CEO s evaluation of each officer s compensation relative to market and the overall framework, philosophy and objectives for our executive compensation programs set by the Compensation Committee. The CEO does not make any compensation recommendations for himself to the Compensation Committee.

The recommendations for elected officers are based on an assessment of each executive s performance, skills and industry knowledge, as well as succession and retention considerations. The Chief Human Resources Officer regularly provides tally sheets to the Compensation Committee that summarize the total compensation and benefits for each NEO. These tally sheets are provided to

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the Compensation Committee to ensure that compensation decisions are made within our total compensation framework. The values of nonqualified deferred compensation, outstanding equity awards, health and welfare benefits, pension benefits and perquisites are also included.

Management also provides recommendations to the Compensation Committee regarding executive incentive and benefit plan designs and strategies. These recommendations include financial and non-financial operational goals and criteria for our annual and long-term incentive plans.

Use of Competitive Data

The Compensation Committee uses a Performance Peer Group, consisting of competitor companies in the aerospace and defense market in the U.S. and Europe, to set annual performance targets and evaluate performance for the purpose of award payments under our incentive plans. In addition, the Compensation Committee uses a Target Industry Peer Group, comprised of 14 companies, to benchmark executive compensation levels and practices.

Performance Peer Group to Set Performance Targets and Evaluate Performance

For purposes of setting targets for our annual and long-term incentive plans, the Compensation Committee uses a Performance Peer Group. TSR performance for LTIP grants vesting in 2014 was benchmarked against the Performance Peer Group identified in the table below. AIP goals for 2014 were established based on an amended Performance Peer Group, updated to comprise the largest global defense companies by government revenues within our market space. The updated Performance Peer Group includes Booz Allen Hamilton (a U.S.-based defense provider of mission and engineering services) and Thales (an international defense provider of electronic systems and services) in place of Airbus Group and SAIC, Inc. TSR performance for LTIP grants vesting after 2015 will be benchmarked against the updated Performance Peer Group.

PERFORMANCE PEER GROUP		
Airbus Group*	Finmeccanica	Lockheed Martin Corporation
BAE Systems	General Dynamics Corporation	Raytheon Company
The Boeing Company	L-3 Communications Holdings, Inc.	SAIC, Inc.**

* Formerly known as EADS.

** On September 27, 2013, SAIC, Inc. (SAI) spun off its services business into Science Applications International Corporation and renamed the parent company Leidos Holdings, Inc., both publicly traded companies. The legacy SAI publicly traded company no longer exists in its prior form. We combined the two publicly traded components, Science Applications International Corporation and Leidos Holdings, Inc., as a proxy for the legacy company, to calculate an implied SAI TSR for outstanding LTIP grants vesting prior to 2016.

Target Industry Peer Group to Benchmark Executive Compensation Practices

The Compensation Committee compares the compensation of our NEOs against a Target Industry Peer Group of 14 companies, as well as against a subset of the Target Industry Peer Group containing six direct peers. Prior to the beginning of the year, the Compensation Committee sets the Target Industry Peer Group and the subset of direct peers used to benchmark compensation the following year. To identify companies for compensation benchmarking purposes, the Compensation Consultant employed a methodology that considered a company a peer if it met the following criteria:

the company was identified as a peer by at least three aerospace and defense peers or proxy advisory services;

the company participated in the annual Aon Hewitt executive compensation study; and

revenues, total employees and market capitalization of the company were broadly similar to those of the Company.

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COMPENSATION DISCUSSION AND ANALYSIS | Key Principles

While the Target Industry Peer Group is reviewed annually by the Committee s Compensation Consultant, our goal is to keep it as consistent as possible on a year-over-year basis. The companies that comprise the 2014 Target Industry Peer Group are listed in the following table:

TARGET INDUSTRY PEER GROUP	
3M Company	L-3 Communications Holdings, Inc. *
The Boeing Company *	Lockheed Martin Corporation *
Caterpillar, Inc.	Raytheon Company *
Emerson Electric Company	Rockwell Collins, Inc.
General Dynamics Corporation *	SAIC, Inc.**
Honeywell International, Inc. *	Textron, Inc.
Johnson Controls, Inc.	United Technologies Corporation

* Included in the subset of six direct peers also used for compensation benchmarking.

** As a result of SAIC, Inc. spinning off its services business, it no longer meets the criteria and will be replaced by Eaton in 2015.

It is the Company s pay philosophy to provide the CEO a compensation package that comprises competitive elements of base salary and target variable pay relative to the Target Industry Peer Group. In 2014, the CEO s base salary, target annual incentive and long-term incentive grant each approximated the median. As a result, the CEO s target total direct compensation also approximated the median of the Target Industry Peer Group.

Another element of the Company s pay philosophy is to tie a significant portion of the CEO s pay to performance. As a result, the CEO s actual compensation may differ from this market median based on the Company s actual performance.

In determining the base salary and target variable pay elements for the other NEOs, the Compensation Committee does not set any specific benchmark relative to the Target Industry Peer Group; rather, the Compensation Committee considers several factors in determining their compensation, including executive compensation levels and practices of the Target Industry Peer Group, NEO individual experience, growth in job as demonstrated through sustained performance, leadership impact, retention and pay relative to the CEO. Actual annual incentive awards and long-term incentive award opportunities reflect these factors, as well as Company performance.

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COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS

Selection of Performance Criteria

Our objective in selecting performance goals for the annual incentive plan and long-term incentive plan is to establish metrics that enhance shareholder value, complement one another in support of strong Company performance, and balance annual and long-term results.

As mentioned, we use the amended Performance Peer Group to establish key 2014 financial goals benchmarked against our industry for purposes of measuring performance.

Annual Incentive Compensation

Under our shareholder-approved 2002 Incentive Compensation Plan (the Plan), the Compensation Committee approves the annual incentive compensation target payout percentage for each NEO. For the CEO, it is approved by the independent directors. The Compensation Committee applies the process detailed above to set incentive compensation levels for NEOs.

The target incentive award (Target Bonus) represents a percentage of each NEO s base salary. Following the completion of the fiscal year, the Target Bonus is used by the Compensation Committee, together with its assessment of Company performance against pre-determined performance criteria, to determine the final bonus award amount.

2014 Annual Incentive Plan

For 2014, the Target Bonus for the CEO was 150% of base salary, which was unchanged from 2013. For each of the other NEOs , the 2014 Target Bonus was also unchanged from 2013 and was 100% of base salary.

The final bonus award for each NEO was determined by multiplying the Northrop Grumman Company Performance Factor (CPF) by the Target Bonus. Within the annual incentive formula described below, the CPF can range from 0% to 200%.

Annual incentive formula for 2014:

Base Salary x Target Payout % = Target Bonus

Target Bonus x CPF = Final Bonus Award

The annual incentive payments are designed to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. As a result, the terms of the Plan provide that the maximum potential individual incentive compensation award for a performance year for an officer subject to Section 162(m) shall be limited. Actual payouts for the 2014 performance year were less than the limits set forth under the Plan.

At the end of each year, the CEO conducts an annual performance evaluation for each NEO, other than himself, and then reviews the evaluation with the Compensation Committee. The Compensation Committee reviews Company performance information, as well as the comparison to market data.

The Compensation Committee approves bonus amounts for all NEOs, subject to ratification by the independent members of the Board with respect to the CEO s bonus. The Compensation Committee has discretion to make adjustments to the annual bonus payout if it determines such adjustment is warranted. For example, in instances where Company performance has been impacted by unforeseen or unusual events (natural disasters, significant acquisitions or divestitures, etc.), the Compensation Committee has exercised its authority to increase the final awards (subject to limitations under Section 162(m) of the Internal Revenue Code). The Compensation Committee has also adjusted payouts downward in the past despite performance targets having been met when it determined that particular circumstances had a negative impact on the Company but were not reflected in the performance calculation. For 2014, no adjustments were made.

2014 Annual Incentive Goals and Results

For the annual incentive plan, we use a mix of financial and non-financial metrics to measure our performance. The following financial metrics were selected for 2014:

Pension-adjusted OM Rate: establishes high performance expectations for the Company and is calculated as OM rate (operating margin divided by sales) adjusted for net FAS/CAS pension income or expense. The net FAS/CAS pension adjustment is the difference between pension expense determined in accordance with GAAP under Financial Accounting Standards (FAS) and pension expense allocated to the business segments under U.S. Government Cost Accounting Standards (CAS).

Free Cash Flow Conversion Rate: focuses on the quality of net earnings and is calculated as free cash flow provided by operating activities before the after-tax impact of discretionary pension contributions divided by net income from continuing operations.

COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS

Awards (Book-to-bill): focuses the Company on maintaining market share and represents the value of total new contracts awarded to the Company during the year, net of backlog adjustments, divided by sales during the year.

Pension-adjusted Net Income: reflects an integrated metric for both top and bottom line performance and is calculated as net income adjusted for net FAS/CAS pension income or expense after tax.

In addition to the financial goals, non-financial goals have been established to align our objectives with shareholders, customers and employees. Performance against non-financial metrics can result only in downward adjustment to the financial metric score. The following non-financial metrics were selected:

Customer Satisfaction: measured in terms of customer feedback, including customer-generated performance scores, award fees and verbal and written feedback.

Quality: measured using program-specific objectives within each of our sectors, including defect rates, process quality, supplier quality, planning quality and other appropriate criteria for program type and phase.

Engagement: measured in terms of improvement in overall engagement score (as reported by employees in a company-wide engagement survey).

Diversity: measured in terms of improving representation of females and People of Color in mid-level and senior-level management positions with respect to internal and external benchmarks.

Safety: measured by Total Case Rate, defined as the number of Occupational Safety & Health Administration recordable injuries as well as by Lost Work Day Rate associated with those injuries.

Environmental Sustainability: measured in terms of the reduction, in metric tons per sales, of greenhouse gas emissions, and of solid waste and water utilization.

The Company s achievement of the four financial metrics are used to determine the CPF value. Performance against the six non-financial goals cannot be used to adjust the CPF upward and can result only in a downward adjustment to the financial metric score if targets are not achieved. For 2014, the Compensation Committee determined that the aggregate performance against the non-financial metrics achieved targets, and, consequently, there was no reduction to the CPF.

Our annual incentive plan provides for payout levels at 0% to 200% of target. The minimum, target and maximum performance levels are derived based on an analysis of the past performance of our Performance Peer Group. Specific values are identified for each metric at selected points in the non-linear range and other values determined by interpolation between these points. No payout is made if performance is below the minimum. No above-target payout is earned unless the Company s performance exceeds the performance threshold noted in the table below. The maximum 200% payout is based upon the top past performance of the Performance Peer Group. This structure rewards superior performance by aligning above-target payouts to outperforming our peer benchmarks and provides reduced awards for below average performance. Based on Company performance for the four financial metrics shown in the table below, the CPF was 146%.

Metric/Goal	Weighting	Performance Threshold to be Exceeded In Order To Earn Above-Target Payout	2014 Performance
Pension-adjusted OM Rate	35%	9.8%	12.2%
Free Cash Flow Conversion Rate	35%	105%	98%
Awards (Book-to-bill)	15%	100%	104%
Pension-adjusted Net Income	15%	$1.59B	$1.89B

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COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS

Decisions for 2014

In February 2015, the Compensation Committee applied the CPF to Mr. Bush s Target Bonus. Based on the CPF, in February 2015, the Committee recommended, and the independent members of our Board approved, a 2014 annual incentive award of $3,350,700 for Mr. Bush. Based on the CPF, the CEO recommended, and the Compensation Committee approved, the NEOs annual incentive awards.

Name	Target Payout % of Salary	Payout Range % of Salary	Actual Payout % of Salary	Actual Payout*
Wesley G. Bush	150%	0% - 300%	219%	$3,350,700
James F. Palmer	100%	0% - 200%	146%	$1,270,000
Gloria A. Flach	100%	0% - 200%	146%	$1,117,000
Linda A. Mills	100%	0% - 200%	146%	$1,153,000
Thomas E. Vice	100%	0% - 200%	146%	$1,117,000

* Details on the range of bonuses that could have been payable based on 2014 performance are provided in the Grants of Plan-Based Awards table. Actual bonus payouts for 2014 performance are provided here and in the Summary Compensation Table.

Long-Term Incentive Compensation

2014 Long-Term Incentive Program

In determining the amount of individual long-term incentive awards, the Compensation Committee considers an executive officer s individual performance during the preceding year, growth in job as demonstrated through sustained performance, leadership impact, retention and pay relative to the CEO, as well as market data for the executive officer s position based on the Target Industry Peer Group analysis.

In 2014, after determining the award value for the NEOs based on the market data and individual factors as described above, the Compensation Committee granted 70% of the value in the form of RPSRs and 30% in the form of RSRs to provide retention value to ensure sustainability and achievement of business goals over time. The Committee determined that this long-term incentive mix would appropriately motivate and reward the NEOs to achieve our long-term objectives and further reinforce the link between their interests and the interests of our shareholders. The RPSRs are paid following the completion of the 2014-2016 performance period if goals are met. The RSRs vest 100% after three years. Vesting for termination due to death, disability, or retirement is discussed in the Terms of Equity Awards section on page 53. For the 2014 grant, dividends accrue on both RPSR and RSR awards earned and will be paid upon payment of the RPSR or RSR.

The Compensation Committee evaluates RPSR performance requirements each year to ensure they are aligned with our objectives. For the 2014 grant, the Compensation Committee determined that for the NEOs, performance would continue to be measured in terms of relative TSR as it provides the most direct line of sight to shareholder value creation.

TSR is measured by comparing cumulative stock price appreciation with reinvestment of dividends over a three-year period to the Performance Peer Group (50% of award) and to the S&P Industrials (50% of award), which comprises companies within the S&P 500 classified as Industrials, reflecting the range of similar investment alternatives available to our shareholders. To smooth volatility in the market, the TSR calculation is based on the average of the 30 calendar days immediately prior to the start of the performance period and the last 30 calendar days of the performance period. Beginning with 2012 grants, we reduced the maximum payout from 200% to 150% of the original award granted. Shares that are paid out under an RPSR award granted to the executive in 2014 can vary from 0% to 150% of the original RPSR award granted. The maximum payout is capped at 100% if the absolute TSR is negative, even if the relative TSR would have resulted in a higher score. RPSR awards may be paid in shares, cash or a combination of shares and cash; however, we have chosen to pay our awards in shares.

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COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS

Recently Completed RPSR Performance Period (2012 2014)

In February 2012, when granting RPSRs, the Compensation Committee selected relative TSR as the performance metric for the awards and established the performance criteria in the table below. In February 2015, the Compensation Committee reviewed performance for the January 1, 2012 to December 31, 2014 RPSR performance period.

		Percentile Required to Score			2014 Actual
Metric/Goal	Weighting	0%	100%	150%	Performance *
Relative TSR - Performance Peer Group	50%	25th	50th	80th	100th
Relative TSR - S&P Industrials	50%	25th	50th	80th	94th

* On September 27, 2013, SAIC, Inc. (SAI) spun off its services business into Science Applications International Corporation and renamed the parent company Leidos Holdings, Inc., both publicly traded companies. The legacy SAI publicly traded company no longer exists in its prior form. We combined the two publicly traded companies, Science Applications International Corporation and Leidos Holdings, Inc., as a proxy for the legacy company, to calculate an implied SAI TSR for outstanding LTIP grants awarded in 2012.

Decisions for 2014

Based on 2012 - 2014 TSR performance, we ranked first against the Performance Peer Group and were in the 100th percentile. We were in the 94th percentile of the S&P Industrials. The combined weighted score generated an overall performance score of 150%.

In early 2015, the NEOs received payouts in stock with respect to the performance awards that were granted in February 2012 for the three-year performance period ending December 31, 2014. These awards were paid at 150% of the target number of shares initially awarded.

Other Benefits

This section describes other benefits the NEOs receive. These benefits are not performance related and are designed to provide a competitive package for purposes of attracting and retaining the executive talent needed to achieve our business objectives. These benefits include retirement benefits, certain perquisites and severance arrangements.

Retirement Benefits

We maintain tax-qualified retirement plans (both defined benefit pension plans and defined contribution savings plans) that cover most of our workforce, including the NEOs. We also maintain nonqualified retirement plans that are available to our NEOs, which are designed to restore benefits that were limited under the tax-qualified plans or to provide supplemental benefits. Compensation, age and years of service factor into the amount of the benefits provided under the plans. Thus, the plans are structured to reward and retain employees of long service and recognize higher performance levels as evidenced by increases in annual pay. Additional information about these retirement plans and the NEO benefits under these plans can be found in the Pension Benefits Table and Nonqualified Deferred Compensation Table.

The Compensation Committee assesses aggregate benefits available to the NEOs and has previously imposed an overall cap, generally limited to no more than 60% of final average pay, on pension benefits for the NEOs (except for small variations due to contractual restrictions under the plans). Mr. Bush voluntarily agreed to reduce his cap to 50% of final average pay. In addition, the defined benefit nonqualified supplemental retirement plans in which our NEOs participate were frozen as to pay and service as of December 31, 2014.

Retiree Medical Arrangement

The Special Officer Retiree Medical Plan (SORMP) was closed to new participants in 2007. NEOs who are vested participants in the SORMP are entitled to retiree medical benefits and life insurance pursuant to the terms of the Plan. A participant becomes vested if he or she has either five years of vesting service as an elected officer or 30 years of total service with the Company and its affiliates. A vested participant can commence SORMP benefits at retirement before age 65 if he or she has attained age 55 and 10 years of service. The estimated cost of the SORMP benefit reflected in the Termination Payment Table is the present value of the estimated cost to provide future benefits using actuarial calculations and assumptions. Ms. Mills, Mr. Vice and Ms. Flach are not eligible for SORMP benefits.

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COMPENSATION DISCUSSION AND ANALYSIS | Key Components of our Programs

Perquisites

Our NEOs are eligible for certain limited executive perquisites that include financial planning, income tax preparation, physical exams and personal liability insurance. While almost all other executive perquisites have been eliminated, the Compensation Committee believes the remaining perquisites are common within the competitive market for total compensation packages for executives and are useful in attracting, retaining and motivating talented executives. Perquisites provided to the NEOs in 2014 are detailed in the Summary Compensation Table.

Security Arrangements

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

In 2010, we received specific information from Federal law enforcement officials that led us to conclude that there were threats to the Company and its principals. Based on that information and an ongoing dialogue with law enforcement officials, the Board has required that Mr. Bush and certain NEOs receive varying levels of residential and travel protection.

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

The Board has determined that the CEO should avoid traveling by commercial aircraft for purposes of security, rapid availability and communications connectivity during travel, and should use Company-provided aircraft for all air travel. If, as a result, the CEO uses Company-provided aircraft for personal travel, the costs of such travel are imputed as income and are subject to the appropriate tax reporting according to Internal Revenue Code regulations.

We regularly review the nature of the threat and associated vulnerabilities with law enforcement and security specialists and will continue to revise our security program as appropriate.

Severance Benefits

We maintain the Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation (Severance Plan), which is available to our NEOs (other than the CEO) who qualify and are approved to receive such benefits. Mr. Bush is not eligible for any severance plan, program or policy of Northrop Grumman. The purpose of the Severance Plan is to help bridge the gap in an executive s income and health coverage during a period of unemployment following termination.

We do not maintain any change in control severance plans. In addition, we do not provide excise tax gross-ups for any payments received upon termination after a change in control.

Upon a qualifying termination (defined below) the Company will provide severance benefits to eligible NEOs under the Severance Plan. Provided the NEO signs a release, he or she will receive: (i) a lump sum severance benefit equal to one and one-half times annual base salary and target bonus, (ii) a prorated performance bonus, (iii) continued medical and dental coverage for the severance period, (iv) income tax preparation/financial planning fees for the year of termination and the following year and (v) outplacement expenses up to 15% of salary, all subject to management approval. The cost of providing continued medical and dental coverage is based upon current premium costs. The cost of providing income tax preparation and financial planning is capped at $15,000 for the year of termination and $15,000 for the year following termination.

A qualifying termination means one of the following:

involuntary termination, other than for cause or mandatory retirement; or

election to terminate in lieu of accepting a downgrade to a non-officer position (i.e., good reason).

Change in Control Benefits

We do not maintain separate change in control programs or agreements. The only change in control benefits available to the NEOs are those described in the terms and conditions of the 2001 Long-Term Incentive Stock Plan (2001 Plan) and the 2011 Long-Term Incentive Stock Plan (2011 Plan).

Policies and Procedures

Stock Ownership Guidelines

We maintain stock ownership guidelines for our NEOs to further promote alignment of management and shareholder interests. These guidelines require that the CEO and other NEOs own Company stock denominated as a multiple of their annual salaries that can be accumulated over a five-year period from the date of hire or promotion into an elected officer position.

The guidelines are as follows:

Position	Stock Value as a Multiple of Base Salary
Chairman, CEO and President	7x base salary
NEOs	3x base salary

Shares that satisfy the stock ownership guidelines include:

- Company stock owned outright;
- RSRs, whether or not vested; and
- the value of shares held in the Northrop Grumman Savings Plan or Northrop Grumman Financial Security and Savings Program.

Stock options and unvested RPSRs are not included in calculating ownership until they are converted to actual shares owned.

The Compensation Committee reviews compliance with our stock ownership guidelines on an annual basis. As of December 31, 2014, the CEO and other NEOs were in compliance with the ownership guidelines. The Compensation Committee continues to monitor compliance and will conduct a full review again in 2015.

Stock Holding Requirements

We have a holding period requirement for payouts from long-term incentive grants, further emphasizing the importance of sustainable performance and appropriate risk-management behaviors. Under this policy, NEOs are required to hold, for a period of three years, 50% of their net after-tax shares received from RSR vestings, RPSR payments and stock option exercises. These restrictions will generally continue following termination and retirement; however, shares acquired from option exercises or RPSR payments following termination or retirement occurring more than one year after separation from the Company will not be subject to the holding requirement.

Anti-Hedging and Pledging Policy

Company policy prohibits our NEOs and other elected officers from engaging in hedging transactions with respect to Company stock or pledging Company stock.

Recoupment Policy

During 2014, the Board revised the Company s recoupment policy to expand the circumstances under which, and the employees from whom, the Company may recoup incentive compensation and also to provide for certain disclosure in the event of recoupment, consistent with SEC and other legal requirements. The policy applies to a three-year look back of performance-based short or long-term, cash or equity incentive payments. The policy provides that:

- the Board has discretion to recoup incentive compensation paid to an elected officer in the event of a restatement or if an elected officer engages in illegal conduct that causes significant financial or reputational harm to the Company;

- the Board has discretion to recoup incentive compensation paid to the elected officer in the event the elected officer fails to report such misconduct of another, or is grossly negligent in fulfilling his or her supervisory responsibilities to prevent such misconduct; and

- the Chief Executive Officer has discretion to recoup under similar circumstances incentive compensation provided to non-elected officers or other employees.

COMPENSATION DISCUSSION AND ANALYSIS | Key Components of our Programs

Risk Management

The Compensation Committee annually reviews the design of our compensation program and together with the independent compensation consultant assesses its risk. Based on the independent compensation consultant and the Compensation Committee s review of our compensation programs, practices, and policies, the Compensation Committee determined that the risk profile is appropriate and substantial risk management features are incorporated into our compensation program, including:

- overlapping three-year cliff vested LTIP grants that are tied to multiple performance periods and encourage focus on sustainable and continual performance improvement;

- capped annual and performance-based long-term incentive payouts;

- three-year holding periods for long-term incentive grants and ownership guidelines that emphasize the importance of sustainable performance and encourage management behaviors aligned with the long-term interests of shareholders; and

- policies that allow for recoupment of short and long-term incentive payments and prohibit NEOs and other elected officers from engaging in hedging transactions or pledging Company stock.

Grant Date for Equity Awards

Annual grant cycles for equity awards occur in February at the same time as salary increases and annual incentive grants. This timing allows the Compensation Committee to make decisions on three compensation components at the same time, utilizing a total compensation philosophy. The Compensation Committee reviews and approves annual long-term incentive grants during its scheduled meeting, which occurs following announcement of our year-end financial results. Equity grants may also be granted on an interim basis throughout the year for special situations, such as new executive hires, promotions, or retention.

Tax Deductibility of Pay

Section 162(m) of the Internal Revenue Code generally limits the annual tax deduction to $1 million per person for compensation paid to the Company s CEO and the next three highest-paid NEOs (other than the CFO). Qualifying performance-based compensation is not subject to the deduction limit. The Company s annual incentive payments and equity-based incentive compensation are generally designed to qualify as performance-based compensation under this definition and to be fully deductible. Our RSR grants are not considered performance-based under Section 162(m) and, as such, may not be deductible.

Since the CEO s salary in 2014 was above the $1,000,000 threshold, a portion of his salary and his perquisites are not deductible by the Company.

Say-on-Pay

Our shareholders are asked to approve on an annual, advisory basis, the compensation paid to our NEOs. We regularly engage with our shareholders to understand their concerns regarding executive compensation. Our shareholders expressed a preference for full-value shares as they are less dilutive and provide stronger alignment with shareholder interests. In 2012, as a result of feedback from our shareholders, the Compensation Committee eliminated the use of stock options and approved a mix of LTIP awards to NEOs composed of 70% RPSRs and 30% RSRs.

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COMPENSATION TABLES | SUMMARY COMPENSATION TABLE

2014 Summary Compensation Table

Name & Principal Position	Year	Salary (1) ($)	Bonus ($)	Stock Awards (2) ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation (3) ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (4) ($)	All Other Compensation (5) ($)	Total ($)
Wesley G. Bush	2014	1,524,231	0	9,000,007	0	3,350,700	6,890,754	1,030,011	21,795,703
Chairman, Chief Executive Officer	2013	1,500,023	0	8,000,025	0	3,240,000	4,372,961	1,543,403	18,656,412
and President	2012	1,500,120	0	8,000,011	0	4,117,500	8,939,532	1,902,181	24,459,344
James F. Palmer	2014	866,154	0	3,500,061	0	1,270,000	2,390,103	197,798	8,224,116
Corporate Vice President and Chief	2013	850,016	0	5,499,964	0	1,224,000	1,210,323	182,137	8,966,440
Financial Officer	2012	850,081	0	3,500,023	0	1,560,000	1,707,827	183,098	7,801,029
Gloria A. Flach (6)	2014	762,115	0	3,500,061	0	1,117,000	6,457,588	33,951	11,870,715
Corporate Vice President and	2013	738,462	0	3,499,980	0	1,080,000	2,819,117	88,309	8,225,868
President, Electronic Systems									
Linda A. Mills	2014	787,116	0	3,500,061	0	1,153,000	3,667,442	123,101	9,230,720
Corporate Vice President,	2013	775,010	0	3,499,980	0	1,116,000	1,963,264	145,064	7,499,318
Operations	2012	775,050	0	4,000,009	0	1,420,000	3,321,233	138,917	9,655,209
Thomas E. Vice (6)	2014	762,115	0	3,500,061	0	1,117,000	3,616,917	160,478	9,156,571
Corporate Vice President and	2013	742,308	0	3,499,980	0	1,080,000	1,501,337	397,053	7,220,678
President, Aerospace Systems									

(1) This column includes amounts that were deferred under the qualified savings and nonqualified deferred compensation plans.

(2) The dollar value shown in this column is equal to the total grant date fair value of RPSRs and RSRs granted during the periods presented. The Company did not grant stock options in 2014. For assumptions used in calculating the grant date fair value, see the discussion in Note 13 of the Company s 2014 Form 10-K, adjusted to exclude forfeitures.

(3) These amounts were paid pursuant to the Company s annual incentive plan. This column includes amounts that were deferred under the qualified savings and nonqualified deferred compensation plans.

(4) The amounts in this column relate solely to the increased present value of the executive s pension plan benefits using mandatory SEC assumptions (see the descriptions of these plans under the Pension Benefits table). There were no above-market earnings in the nonqualified deferred compensation plans (see the descriptions of these plans under the Nonqualified Deferred Compensation table). The amount accrued in each year differs from the amount accrued in prior years due to an increase in age, service and final average pay (salary and bonus). The change in pension value is also highly sensitive to changes in the interest rate used to determine the present value of the payments to be made over the life of the executive. As an example, of the $6,890,754 change in pension value in 2014 for Mr. Bush, approximately $4,000,000 was due to lower discount rates used in 2014.

(5) All Other Compensation amounts include, as applicable, (a) the value of perquisites and personal benefits and (b) the amount of Company contributions to defined contribution plans (the Northrop Grumman Savings Plan and the Savings Excess Plan).

Perquisites and Personal Benefits - Perquisites and other personal benefits provided to certain NEOs include security, travel-related perquisites, including use of Company aircraft or ground transportation services for personal travel and travel and incidental expenses for family members accompanying the NEO while on travel, financial planning/income tax preparation services, insurance premiums paid by the Company on the NEO s behalf and other nominal perquisites or personal benefits (including executive physicals and commemorative gifts).

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COMPENSATION TABLES | SUMMARY COMPENSATION TABLE

The cost of any category of the listed perquisites and personal benefits did not exceed the greater of $25,000 or 10% of total perquisites and personal benefits for any NEO in 2014, except for the following: (i) for Mr. Bush, costs attributable to security protection ($781,433), which includes personal travel on Company aircraft consistent with the Company s security program ($190,590), (ii) for Mr. Palmer, costs attributable to personal travel on Company aircraft ($61,525), and (iii) for Mr. Vice, costs attributable to financial planning/income tax preparation in 2013 and 2014 ($29,999). The amount of security costs reported for Mr. Bush has been reduced by $41,105, which reflects the portion for the security perquisite that Mr. Bush reimbursed to the Company related to personal travel on the corporate aircraft by him and his family members.

We determine the incremental cost for perquisites and personal benefits based on the actual costs or charges incurred by the Company for the benefits. The Company calculates the value of personal use of Company aircraft based on the incremental cost of each element. Fixed costs that would be incurred in any event to operate Company aircraft (e.g., aircraft purchase costs, maintenance not related to personal trips and flight crew salaries) are not included. As discussed above under Security Arrangements, the Company provides NEOs with certain residential and personal security protection due to the nature of our business and security threat information. The amounts reflected in the All Other Compensation column include expenses for certain residential and personal security that are treated as perquisites under relevant SEC guidance, even though the need for such expenses arises from the risks attendant with their positions with the Company. The Company calculates the cost of travel security coverage based on the hourly rates and overhead fees charged directly to the Company by the firms providing security personnel. If Company security personnel are used, their hourly rates are used to calculate the cost of coverage.

Contributions to Plans - In 2014, we made the following contributions to Northrop Grumman defined contribution plans (the Northrop Grumman Savings Plan and Savings Excess Plan): Mr. Bush $190,569, Mr. Palmer $83,580, Ms. Flach $10,367, Ms. Mills $76,063, and Mr. Vice $75,275.

(6) Ms. Flach and Mr. Vice were not named executive officers for 2012; therefore, data for this year is not applicable.

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COMPENSATION TABLES | Grants of Plan-Based Awards Table

2014 Grants of Plan-Based Awards

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)(3)			All Other Stock Awards: Number of Shares of Stock or Units (4)	All Other Option Awards: Number of Securities Underlying Options (2)	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards (2)(5)
Name	Grant Type	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	(#)	(#)	($/Sh)	
Wesley G. Bush	Incentive Plan		0	2,295,000	4,590,000							
	RPSR	2/19/2014				0	54,387	81,581				6,299,953
	RSR	2/19/2014							22,680			2,700,054
James F. Palmer	Incentive Plan		0	870,000	1,740,000							
	RPSR	2/19/2014				0	21,151	31,727				2,450,040
	RSR	2/19/2014							8,820			1,050,021
Gloria A. Flach	Incentive Plan		0	765,000	1,530,000							
	RPSR	2/19/2014				0	21,151	31,727				2,450,040
	RSR	2/19/2014							8,820			1,050,021
Linda A. Mills	Incentive Plan		0	790,000	1,580,000							
	RPSR	2/19/2014				0	21,151	31,727				2,450,040
	RSR	2/19/2014							8,820			1,050,021
Thomas E. Vice	Incentive Plan		0	765,000	1,530,000							
	RPSR	2/19/2014				0	21,151	31,727				2,450,040
	RSR	2/19/2014							8,820			1,050,021

(1) Amounts in these columns show the range of payouts that were possible under the Company s annual incentive plan. The actual bonuses are shown in the Summary Compensation Table column entitled Non-Equity Incentive Plan Compensation.

(2) The Company did not grant stock options in 2014.

(3)

These amounts relate to RPSRs granted in 2014 under the 2011 Plan. Each RPSR represents the right to receive a share of the Company s common stock upon vesting of the RPSR. The RPSRs are earned based on relative TSR over a three-year performance period commencing January 1, 2014 and ending December 31, 2016. The payout will occur in early 2017 and will range from 0% to 150% of the rights awarded. Earned RPSRs may be paid in shares, cash or a combination of shares and cash. An executive must remain employed through the performance period to earn an award, although pro-rata vesting results if employment terminates earlier due to early retirement, death or disability. The award will fully vest if the executive terminates due to normal retirement. Dividends accrue on RPSR awards earned and will be paid upon payment of the RPSR. See the Severance Program section for treatment of RPSRs in these situations and upon a change in control.

(4) These amounts relate to RSRs granted in 2014 under the 2011 Plan. Each RSR represents the right to receive a share of the Company s common stock upon vesting of the RSR. An executive must remain employed through the vesting period to earn an award, although full vesting results from death, disability, qualifying termination or mandatory retirement. The award is prorated if the executive terminates due to early retirement. Earned RSRs may be paid in shares, cash or a combination of shares and cash. Dividends accrue on RSR awards earned and will be paid upon payment of the RSR. See the Severance Program section for treatment of RSRs in these situations and upon a change in control.

(5) For assumptions used in calculating the grant date fair value per share, see the discussion in Note 13 of the Company s 2014 Form 10-K, adjusted to exclude forfeitures.

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COMPENSATION TABLES | OUTSTANDING EQUITY AWARDS TABLE

Outstanding Equity Awards at 2014 Fiscal Year End

	Option Awards						Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable (1)	Number of Securities Underlying Unexercised Options (#) Unexercisable (1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Grant Date	Option Exercise Price ($)	Options Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#) (2)	Market Value of Shares or Units of Stock that Have Not Vested ($) (3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights that Have Not Vested (#) (4)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights that Have Not Vested ($) (3)
Wesley G. Bush	0	0	0	2/19/2014			22,680	3,342,805	54,387	8,016,100
	0	0	0	2/20/2013			36,342	5,356,447	100,411	14,799,577
	0	0	0	2/15/2012			40,235	5,930,237	102,546	15,114,255
	0	0	0	2/15/2011			67,415	9,936,297	0	0
James F. Palmer	0	0	0	2/19/2014			8,820	1,299,980	21,151	3,117,446
	0	0	0	9/17/2013			20,253	2,985,090	0	0
	0	0	0	2/20/2013			15,899	2,343,354	43,930	6,474,843
	0	0								