NORTHROP GRUMMAN CORP /DE/
Form DEF 14A
April 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant 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)

(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 the transaction applies:

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

(3) Per unit price or other underlying value of the 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 the transaction:

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Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(3) Filing Party:

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April 6, 2012

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

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

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 ANNUAL MEETING OF SHAREHOLDERS

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

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

(1) The election of the thirteen nominees named in the attached Proxy Statement as directors to hold office until the 2013 Annual Meeting of Shareholders;

(2) A proposal to approve, on an advisory basis, the compensation of our named executive officers;

(3) A proposal to ratify the appointment of Deloitte & Touche LLP as our independent auditor for the year ending December 31, 2012;

(4) A proposal to approve an amendment to the Certificate of Incorporation of Titan II, Inc. (now a wholly-owned subsidiary of Huntington Ingalls, Inc.), to eliminate the provision requiring our shareholders to approve certain actions by or involving Titan II, Inc.;

(5) A proposal to approve an amendment and restatement of our Certificate of Incorporation to provide additional rights for holders of the Company s common stock to act by written consent subject to various provisions;

(6) One shareholder proposal included and discussed in the accompanying Proxy Statement; and

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

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

By order of the Board of Directors,

Jennifer C. McGarey

Corporate Vice President and Secretary

2980 Fairview Park Drive

Falls Church, Virginia 22042

April 6, 2012

IMPORTANT

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

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

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

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

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SUMMARY INFORMATION

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

BUSINESS HIGHLIGHTS

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

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

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

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

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

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

this Proxy Statement.

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SUMMARY INFORMATION *(continued)*

2011 COMPENSATION HIGHLIGHTS

- The compensation earned in 2011 by our Chief Executive Officer (CEO) and the other named executive officers (NEOs), as described in the Compensation Discussion and Analysis section of this Proxy Statement, reflect our Company s strong financial performance, achievement of the performance targets established by the Compensation Committee of the Board of Directors, and continued progress toward exceeding peer average financial benchmarks.

- Consistent with our compensation philosophy, more than 90% of our CEO s 2011 compensation and more than 80% of the other NEOs 2011 compensation was incentive-based pay. 2011 compensation earned also included special incentive grants awarded in February 2011 to certain NEOs designed to promote management s long-term focus on financial and operational performance.

CEO Total Direct Compensation

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

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

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

CORPORATE GOVERNANCE HIGHLIGHTS

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

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

- *Say-on-Pay Advisory Vote* We were pleased that last year s shareholders vote supported the compensation of our named executive officers. In response to last year s say-on-frequency advisory vote, we will submit to shareholders a non-binding say-on-pay resolution on our executive compensation again this year, and on an annual basis.

- *Political Contributions* As a result of last year s shareholder proposal and other shareholder input aimed at increasing transparency with resect to our political activities, we undertook a comprehensive review of our political contribution activity. After this review, we have significantly enhanced our disclosure on our website regarding political contributions made by the Company and by our employees political action committee.

- *Director Stock Ownership* To encourage directors further to have a direct and material investment in our common stock, we implemented director stock ownership requirements that require each director ultimately to own stock of the Company in an amount equal to five times their annual cash retainer.

- *Election of Additional Independent Directors* We increased the Board size to thirteen directors, twelve of whom are independent, and we appointed two additional independent directors to the Board.

- *Shareholder Outreach* We have expanded our shareholder engagement program to foster increased communication with our shareholders and redesigned this Proxy Statement in an effort to provide more understandable and easily accessible disclosure for our shareholders.

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QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

Why am I receiving this Proxy Statement?

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

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

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

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

Who is entitled to vote at the Annual Meeting?

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

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

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

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

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

What am I being asked to vote on?

The proposals scheduled to be voted on are:

¡ Election of thirteen director nominees named in this Proxy Statement as directors (Proposal One);

¡ Approval, on an advisory basis, of the compensation of our named executive officers (Proposal Two);

¡ Ratification of the appointment of Deloitte & Touche LLP as our independent auditor for the year ending December 31, 2012 (Proposal Three);

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

What are the Board of Directors recommendations?

The Board of Directors recommends a vote:

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

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

How many votes are needed to approve each proposal?

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

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

What is a broker non-vote?

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

How do I vote my shares?

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

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

Report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

May I revoke my proxy?

A shareholder who executes a proxy may revoke it at any time before its exercise by delivering a written notice of revocation to the Corporate Secretary or by signing and delivering another proxy that is dated later. A shareholder attending the meeting in person may revoke the proxy by giving notice of revocation to the inspector of election at the meeting or by voting at the meeting.

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PROPOSAL ONE:

ELECTION OF DIRECTORS

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

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

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

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

Nominees for Director

WESLEY G. BUSH, 51

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

Director since 2009

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

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

Key Attributes, Skills and Qualifications

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

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PROPOSAL ONE:

ELECTION OF DIRECTORS *(continued)*

LEWIS W. COLEMAN, 70

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

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

Director since 2001

Member of the Compensation Committee and Governance Committee

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

Key Attributes, Skills and Qualifications

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

VICTOR H. FAZIO, 69

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

Director since 2000

Member of the Audit Committee and Governance Committee (Chair)

Mr. Victor H. Fazio was named Senior Advisor at Akin Gump Strauss Hauer & Feld LLP in May 2005 after serving as senior partner at Clark & Weinstock since 1999. Prior to that, Mr. Fazio was a Member of Congress for 20 years representing California s third congressional district. During that time he served as a member of the Armed Services, Budget and Ethics Committees and was a member of the House Appropriations Committee where he served as Subcommittee Chair or ranking member for 18 years. Mr. Fazio was a member of the elected leadership in the House from 1989 to 1998 including four years as Chair of his Party s Caucus, the third ranking position. From 1975 to 1978, Mr. Fazio served in the California Assembly and was a member of the staff of the California Assembly Speaker from 1971 to 1975. He is a member of the board of directors of various private companies and non-profit organizations including the Ice Energy Corporation, Peyton Street Independent Financial Services Corporation, Energy Future Coalition, the Campaign Finance Institute, the Committee for a Responsible Federal Budget, Center for Strategic Budgetary Assessments, The Information Technology and Innovation Foundation, UC Davis Medical School Advisory Board, UC Davis Foundation and the National Parks Conservation Association.

Key Attributes, Skills and Qualifications

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

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PROPOSAL ONE:

ELECTION OF DIRECTORS *(continued)*

DONALD E. FELSINGER, 64

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

Director since 2007

Member of the Compensation Committee (Chair) and Governance Committee

Mr. Donald E. Felsinger is Executive Chairman of the Board of Directors of Sempra Energy, a position he has held since July 2011. From February 2006 through June 2011, he was Chairman and CEO of Sempra Energy. Prior to that, Mr. Felsinger was President and Chief Operating Officer of Sempra Energy from January 2005 to February 2006 and a member of the Board of Directors, and from 1998 through 2004, he was Group President and Chief Executive Officer of Sempra Global. Prior to the merger that formed Sempra Energy he served as President and Chief Operating Officer of Enova Corporation, the parent company of San Diego Gas & Electric (SDG&E). Prior positions included President and Chief Executive Officer of SDG&E, Executive Vice President of Enova Corporation and Executive Vice President of SDG&E.

Mr. Felsinger serves on the board of Archer Daniels Midland and is a member of The Conference Board, the Committee Encouraging Corporate Philanthropy and the USA/Mexico Chamber of Commerce.

Key Attributes, Skills and Qualifications

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

STEPHEN E. FRANK, 70

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

an electric utility company.

Director since 2005

Member of the Audit Committee (Chair) and Governance Committee

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

Key Attributes, Skills and Qualifications

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

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PROPOSAL ONE:

ELECTION OF DIRECTORS *(continued)*

BRUCE S. GORDON, 66

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

Director since 2008

Member of the Compensation Committee and Policy Committee

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

Key Attributes, Skills and Qualifications

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

MADELEINE A. KLEINER, 60

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

Director since 2008

Member of the Audit Committee and Governance Committee

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

Key Attributes, Skills and Qualifications

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

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PROPOSAL ONE:

ELECTION OF DIRECTORS *(continued)*

KARL J. KRAPEK, 63

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

Director since 2008

Member of the Compensation Committee and Policy Committee

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

Key Attributes, Skills and Qualifications

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

RICHARD B. MYERS, 70

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

Director since 2006

Member of the Policy Committee (Chair) and Compensation Committee

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

Key Attributes, Skills and Qualifications

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

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PROPOSAL ONE:

ELECTION OF DIRECTORS *(continued)*

AULANA L. PETERS, 70

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

Director since 1992

Member of the Audit Committee and Governance Committee

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

Key Attributes, Skills and Qualifications

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

GARY ROUGHEAD, 60

Admiral, United States Navy (Ret.) and 29th 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 is also a member of the Council on Foreign Relations and is a director of Project HOPE and a trustee of CNA, a not-for-profit research and analysis organization, and the Woods Hole Oceanographic Institution.

Key Attributes, Skills and Qualifications

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

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PROPOSAL ONE:

ELECTION OF DIRECTORS *(continued)*

THOMAS M. SCHOEWE, 59

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

Director since 2011

Member of the Audit Committee and Policy Committee

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

Key Attributes, Skills and Qualifications

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

KEVIN W. SHARER, 64

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

Director since 2003

Member of the Policy Committee

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

Key Attributes, Skills and Qualifications

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

Vote Required

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

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

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CORPORATE GOVERNANCE

Overview

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

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

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

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

Role of the Board and Director Responsibility

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

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

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

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

- provide advice and counsel to management.

Board Leadership

Chairperson of the Board

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

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

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CORPORATE GOVERNANCE *(continued)*

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

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

Lead Independent Director

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

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

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

Board s Role in Risk Oversight

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

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

Director Independence

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

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

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

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CORPORATE GOVERNANCE *(continued)*

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

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

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

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

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

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

Director Nomination Process

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

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

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

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CORPORATE GOVERNANCE *(continued)*

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

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

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

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

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

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

Board Membership

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

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

Board Meetings and Executive Sessions

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

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CORPORATE GOVERNANCE *(continued)*

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

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

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

Evaluation and Succession Planning

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

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

¡ annually to evaluate the chief executive officer based on a specific set of performance objectives;

¡ annually to provide the Compensation Committee with an assessment of persons considered potential successors to certain management positions, and the Compensation Committee reports and discusses the results of these reviews with the Board of Directors; and

¡ to support continuity of top leadership, including chief executive officer succession.

Departure and Election of Directors in 2011 and 2012

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

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

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

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

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

Communications with the Board of Directors

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

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

Available Information

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

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

CORPORATE GOVERNANCE *(continued)*

- Policy and Procedure Regarding Company Transactions with Related Persons; and
- Board Committee Charters.

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

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

Committees of the Board of Directors

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

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

Audit Committee

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

The Audit Committee s responsibilities include, among other things:

- appoint, subject to shareholder ratification at each Annual Meeting of Shareholders, retain, oversee, evaluate and terminate, if necessary, our independent auditor;

- review and pre-approve each service and related fees considered to be auditing services and permitted non-audit services to be provided by our independent auditor pursuant to pre-approval policies and procedures established by the Audit Committee;

- meet with the independent auditor to review, among other things, all critical accounting policies, all material alternative accounting treatments discussed with management, the ramifications of the use of such treatments and the independent auditor s preferred treatment, and all material written communications with management, including any reports or management letters on significant deficiencies and material weaknesses in internal control over financial reporting, any schedule of unadjusted differences, as well as the results of the audit or review and any opinion or report, which the independent auditor proposes to render in connection with our financial statements;

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CORPORATE GOVERNANCE *(continued)*

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

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

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

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

Compensation Committee

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

The Compensation Committee s responsibilities include, among other things:

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

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CORPORATE GOVERNANCE *(continued)*

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

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

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

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

Governance Committee

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

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

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

- review, at least annually, the standards to be applied by the Board of Directors in making the determinations as to whether a director shall be deemed an independent director and recommend to the Board of Directors any appropriate modifications;

- identify individuals who are qualified to serve as members of the Board of Directors pursuant to our corporate governance principles and provide an assessment of whether each such individual would be an independent director;

- recommend to the Board of Directors nominees for election at each annual meeting or special meeting of shareholders where directors are to be elected;

- identify committee member qualifications and recommend to the Board of Directors appropriate committee member appointments; and

- develop and recommend to the Board of Directors an annual self-evaluation process for the Board of Directors and each of its committees.

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

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CORPORATE GOVERNANCE *(continued)*

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

Policy Committee

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

The Policy Committee s responsibilities include, among other things:

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

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

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

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

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

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COMPENSATION OF DIRECTORS

Director Compensation

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

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

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

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

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

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

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

Security Arrangements for Certain Directors

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

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

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COMPENSATION OF DIRECTORS *(continued)*

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

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

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

Director Compensation Table

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

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

(1) Amounts shown in the Fees Earned or Paid in Cash column reflect the annual retainer paid to each director, including any applicable annual committee retainers. As described above, a director may elect to defer all or a portion of his or her annual retainer into a stock unit account.

(2) Represents the target value of Automatic Stock Units awarded to each of our non-employee directors in 2011 under the 2011 Plan and the 1993 Directors Plan. The amount reported in this column for each director reflects the aggregate fair value on the date of grant, as determined under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation, of the stock units for each director, excluding any assumed forfeitures.

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

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

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

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COMPENSATION OF DIRECTORS *(continued)*

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

(4) Includes $130,027 retainer for service as the Non-Executive Chairman of the Board of Directors from January 1, 2011 to July 18, 2011.

(5) Amounts include expenses for residential and personal security required for Mr. Coleman. We calculate the cost of travel security coverage based on the hourly rates and overhead fees charged directly to the Company by the firms providing security personnel. If Company security personnel are used, their hourly rates are used to calculate the cost of coverage for each trip. During 2011, the Company incurred $5,203,559 in costs related to security protection related to Mr. Coleman. These costs include $1,515,536 attributable to personal and family member travel on Company aircraft consistent with our security program discussed above and a $174,953 tax gross-up.

(6) Admiral Thomas B. Fargo resigned from the Board of Directors and its committees on March 21, 2011. All amounts shown for 2011 were paid in cash upon Admiral Fargo s resignation from service on the Board of Directors.

(7) Amounts include matching contributions made through our Matching Gifts Program for Education discussed above as follows: Mr. Fazio, $5,000; Ms. Kleiner, $10,000; Mr. Krapek, $5,000; and Ms. Peters, $7,500.

(8) Includes spousal travel on Company aircraft. To calculate the value of personal use of Company aircraft, we calculate the incremental cost of each element, which includes trip-related crew hotels and meals, in-flight food and beverages, landing and ground handling fees, hourly maintenance contract costs, hangar or aircraft parking costs, fuel costs based on the average annual cost of fuel per mile flown and other smaller variable costs. Fixed costs that would be incurred in any event to operate Company aircraft (e.g., aircraft purchase costs, maintenance not related to personal trips and flight crew salaries) are not included.

(9) Admiral Roughead was elected to the Board of Directors on February 14, 2012.

(10) Mr. Schoewe was elected to the Board of Directors on August 17, 2011. Amounts shown reflect the prorated amounts of Mr. Schoewe s retainer fees and equity grant for 2011.

Deferred Stock Units

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

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

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

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

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

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COMPENSATION OF DIRECTORS *(continued)*

Prior Non-Employee Directors Equity Plans

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

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

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

Director Equity Plan

Under the Northrop Grumman Non-Employee Directors Equity Participation Plan (the Director Equity Plan), non-employee directors had an amount equal to 50% of their annual retainer credited to an equity participation account and converted into stock units based on the then fair market value (as defined in the Director Equity Plan) of our common stock. Because no new participants have been added to the Director Equity Plan since May 31, 2005, only Ms. Peters and Messrs. Coleman, Fazio and Sharer participate in this plan. Generally, if a participating non-employee director terminates service on the Board of Directors after completion of at least three consecutive years of service or retires from the Board of Directors as a result of a total disability or a debilitating illness as defined in the Director Equity Plan, the participant will be entitled to receive the full balance of the participant s equity participant account in annual installments. If a participant terminates service on the Board of Directors prior to completing three consecutive years of service and the termination occurs because he or she will have attained age 70 prior to the annual meeting of shareholders, the participant will be entitled to a partial amount of his or her equity participation account. Upon a change in control of the Company, as defined in the Director Equity Plan, non-employee directors will immediately be entitled to receive the full balance of their equity participation account under the Director Equity Plan regardless of the number of years of consecutive service, although payments of their benefits will not commence until the termination of his or her service. No new annual accruals have been credited to the Director Equity Plan; however, the directors participating in the Director Equity Plan do receive quarterly dividend accruals on the balances held in their respective equity participation accounts.

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TRANSACTIONS WITH RELATED PERSONS AND CONTROL PERSONS

Related Person Transaction Policy

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

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

- 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; and
- any firm, corporation, or other entity controlled by any such person.

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

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

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

Certain Relationships and Related Person Transactions

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

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

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

Compensation Committee Interlocks and Insider Participation

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

Certain Indemnification Agreements

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

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

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

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

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VOTING SECURITIES AND PRINCIPAL HOLDERS

Stock Ownership of Certain Beneficial Owners

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

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

(1) This information was provided by State Street Corporation (State Street) in a Schedule 13G filed with the SEC on February 13, 2012. According to State Street, as of December 31, 2011, State Street had shared voting power over 29,951,601 shares and shared dispositive power over 29,886,167 shares. This total includes 18,860,833 shares held in the Defined Contributions Master Trust for the Northrop Grumman Savings Plan and the Northrop Grumman Financial Security and Savings Program, for which State Street Bank and Trust Company acts as trustee and investment manager.

(2) This information was provided by Capital World Investors, a division of Capital Research and Management Company (Capital World), in a Schedule 13G/A filed with the SEC on February 10, 2012. According to Capital World Investors, as of December 31, 2011, Capital World Investors had sole dispositive power over 14,964,223 shares and sole voting power over 2,489,223 shares.

(3) This information was provided by BlackRock, Inc. (BlackRock) in a Schedule 13G/A filed with the SEC on February 10, 2012. According to BlackRock, as of December 31, 2011, BlackRock had sole voting and dispositive power over 22,078,875 shares.

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VOTING SECURITIES AND PRINCIPAL HOLDERS *(continued)*

Stock Ownership of Officers and Directors

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

None of the persons named below beneficially owns in excess of 1% of our outstanding common stock. Unless otherwise indicated, each individual has sole investment power and sole voting power with respect to the shares owned by such person. No family relationship exists between any of the nominees for director or executive officers of the Company.

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

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

(2) These shares subject to option are either currently exercisable or exercisable within 60 days of March 20, 2012.

(3) Includes 811 shares held in our Dividend Reinvestment Plan.

(4) Includes 12,475 shares held in the Peters Family Trust of which Ms. Peters is the trustee.

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

(6) The shares are held in the W.G. and N.F. Bush Family Trust of which Mr. Bush and his wife are trustees.

(7) The shares are held in the G&M Ervin Family Trust.

(8) The shares are held by the Linda Anne Mills Living Trust.

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

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EQUITY COMPENSATION PLAN INFORMATION

Equity Compensation Plan Information

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

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

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

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

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

(3) Of the aggregate number of shares that remained available for future issuance, 46,692,793 were available under the 2011 Plan as of December 31, 2011. No new awards may be granted under the 1993 Stock Plan or the 2001 Plan.

(4) After giving effect to our February 2012 awards, the number of shares of common stock remaining for future issuance would be 36,105,499 (assuming maximum payout of such awards).

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COMPENSATION COMMITTEE REPORT

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

COMPENSATION COMMITTEE

DONALD E. FELSINGER, CHAIRMAN

LEWIS W. COLEMAN

BRUCE S. GORDON

KARL J. KRAPEK

RICHARD B. MYERS

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COMPENSATION DISCUSSION AND ANALYSIS

In this section, we provide an overview of our executive compensation philosophy. This section also describes the material components of our executive compensation program for our 2011 Named Executive Officers or NEOs listed below and explains how and why the Compensation Committee of our Board (the Compensation Committee) arrived at specific compensation policies and decisions involving the NEOs. The 2011 compensation earned by our NEOs is set forth in the 2011 Summary Compensation Table and other compensation tables contained in this Proxy Statement.

2011 NAMED EXECUTIVE OFFICERS

Name	Position
Wesley G. Bush	Chairman of the Board, Chief Executive Officer & President
James F. Palmer	Corporate Vice President & Chief Financial Officer
Gary W. Ervin	Corporate Vice President & President, Aerospace Systems
James F. Pitts	Corporate Vice President & President, Electronic Systems
Linda A. Mills	Corporate Vice President & President, Information Systems

SHAREHOLDER ENGAGEMENT

We welcome feedback from our shareholders regarding our executive compensation program. Shareholders desiring to communicate with the Board or Compensation Committee may do so as described under Communications with the Board of Directors in this Proxy Statement.

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COMPENSATION DISCUSSION AND ANALYSIS | Executive Summary

This Executive Summary of our Compensation Discussion & Analysis (CD&A) provides a brief overview of our business, 2011 performance and highlights regarding our compensation strategy and compensation and corporate governance features. This summary also highlights a number of recent executive compensation decisions for 2012 and beyond. We have included this summary to assist you in reviewing the 2011 compensation earned by our NEOs.

Our Business

We provide technologically advanced, innovative products, services, and integrated solutions in aerospace, electronics, information and services to global customers. Our primary customer is the U.S. Government.

To increase our competitiveness and maximize our ability to provide affordable solutions to our customers, we have improved our performance and cost structure and undertaken significant portfolio shaping actions, including the spin-off of our former shipbuilding business, sector consolidations and business unit realignments and the sale or de-emphasis of several non-core or underperforming businesses. These actions are aimed at generating improved performance and achieving affordability and alignment with customer needs.

While our industry s business environment continues to be shaped by domestic economic conditions and the policy and budget decisions of the U.S. Government, we believe these actions will help position us for success going forward.

For more information regarding our business, see Business and Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2011 Form 10-K.

2011 Highlights*

2011 was a very productive year for our Company. We continued to focus on performance and value creation for shareholders, customers and employees. We further aligned our portfolio with our customers emphasis on affordability initiatives and in markets such as Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), manned and unmanned systems, cybersecurity and logistics. We improved our 2011 performance as demonstrated by substantial increases in operating income and operating margin rate, we continued our share repurchase program and we distributed substantial cash to shareholders through dividends.

***Portfolio Highlights*:** In March 2011, we completed the spin-off of our former shipbuilding business. In the spin-off, our shareholders received shares of the new shipbuilding company, HII, which represented equity value of $1.8 billion at the time of the spin-off. We also refined our portfolio by

divesting or de-emphasizing non-core and underperforming businesses. These actions improved our financial performance and sharpened our focus on four areas C4ISR, manned and unmanned systems, cybersecurity and logistics.

Performance Highlights: 2011 earnings from continuing operations increased 10% to $2.1 billion from $1.9 billion in 2010. Earnings per share from continuing operations increased 17% to $7.41 from $6.32, reflecting the higher earnings from continuing operations and the positive impact of cash generation and 2011 share repurchases. 2010 earnings per share include two unusual items which increased 2010 earnings per share by $0.50. Excluding those items from 2010, earnings per share in 2011 increased 27%. Segment operating income generated by our businesses rose during the year and as a percentage of sales increased to 11.6%. Improved 2011 performance and pension expense resulted in a 16% increase in operating income, and as a percentage of sales operating income increased to 12.4%.

Cash Deployment Highlights*: 2011 was another year of strong cash generation. Before discretionary pension contributions our continuing operations generated approximately $3 billion, and after capital spending, our 2011 FCF totaled $2.5 billion. We returned a total of $2.8 billion to shareholders through the repurchase of 40.2 million shares of our common stock for $2.3 billion and paid shareholders dividends of $543 million. In 2011, we increased our quarterly dividend 6.4% to an annualized rate of $2.00 per share, our eighth consecutive annual dividend increase. In total, we used $2.8 billion, or approximately 150% of 2011 reported free cash flow, to repurchase shares and pay dividends.

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

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COMPENSATION DISCUSSION AND ANALYSIS | EXECUTIVE SUMMARY *(continued)*

Our Compensation Strategy and Alignment with Our Shareholders

- Our incentive plans are aligned with the interests of our shareholders and are designed to motivate and reward strong financial performance. Two years ago we shifted away from internal, plan-based performance metrics and established peer-based financial goals to improve our performance relative to nine peers in the aerospace and defense industry.

- Our annual incentive program uses a peer pay for performance approach, as defined by a set of financial and non-financial metrics. Our financial metrics are weighted as follows: New Business Awards (20%), Pension-Adjusted Operating Margin Rate (Pension-Adjusted OM Rate) (40%), and FCF Conversion (40%). In only two years, this focus on peer-based metrics has driven our Company s performance to above-average peer financial performance. Company leaders and key employees who have the ability to most impact the achievement of our business results are eligible to participate in the program.

- For purposes of measuring our financial performance, we define our peer group as the nine largest companies (measured by sales) of the aerospace and defense industry in the U.S. and Europe.

- Our Long-Term Incentive (LTI) program rewards performance over a three-year performance period to encourage sustainability over time for our investors. Beginning in 2010, all NEOs are measured on relative total shareholder return during this three year period.

Compensation and Corporate Governance Features

We endeavor to maintain good governance practices with respect to the oversight of our executive compensation policies. The following policies and practices, among others, were in effect during 2011.

- Our Board of Directors is led by a Chairman, who also is our CEO, and a Lead Independent Director, who are designated by the independent directors. Our Compensation Committee Chairperson is an independent director with strong compensation and leadership experience;

- Our stock ownership policy defines clear stock ownership guidelines for our executive officers, including the NEOs. As of December 31, 2011, each of the NEOs satisfied his or her individual stock ownership level in accordance with these guidelines. Beginning with the 2010 grant, equity awards to officers are subject to new stock retention requirements. Fifty percent (50%) of the net shares acquired upon the exercise of stock options or the payment or vesting of any performance shares are required to be held for a period of three years. These restrictions generally continue upon termination and retirement as described in detail below;

- Under our clawback policy, certain incentive compensation awards are subject to recovery if our financial results are restated;

-

We previously eliminated all individual change in control agreements and tax gross-up benefits (other than those gross up payments associated with certain Company-wide plans such as relocation); and

- Our independent compensation consultant, Frederic W. Cook & Co, is retained directly by the Compensation Committee and performs no other services for the Company.

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COMPENSATION DISCUSSION AND ANALYSIS | EXECUTIVE SUMMARY *(continued)*

Executive Compensation Decisions: A Look Forward to 2012

The Compensation Committee has taken certain actions based in part on shareholder feedback on pay-for- performance objectives as well as our desire to provide competitive reward and retention value to our key executives. The Committee has:

- maintained NEO 2012 base salaries at their 2011 levels;
- revised our executive retirement benefits, eliminating pay-based accruals in legacy defined benefit and Supplemental Executive Retirement Plans (SERPs) effective January 1, 2015, to better align the benefits offered with current market practices, reduce costs, and decrease non-performance-based elements of executive compensation;
- increased 2012 annual cash-based bonus performance targets by 25 percentage points for NEO s other than the CEO to better align with market practices; the CEO 2012 annual performance target will remain at the 2011 level for 2012;
- in response to shareholder preference for full-value equity grants, changed the portfolio mix for 2012 equity grants for elected officers to a mix of restricted performance stock rights (RPSRs) and restricted stock rights (RSRs), eliminating grants of stock options; and
- changed the terms and methodology for the grants of long-term performance shares to elected officers who are also members of the Corporate Policy Council (CPC) to better align their interests with shareholder interests; these changes include: reducing the maximum payout under the programs from 200% of the RPSR award granted to 150% of the RPSR award granted and limiting the payout to no more than 100% of shares granted if absolute total shareholder return over the performance period is negative, even if our performance relative to the other industry benchmarks would have resulted in a higher score.

In his first two years as CEO, the Board of Directors made larger equity grants to the CEO in recognition of the significant increase in responsibilities, competitive market data and economic alignment with shareholder interests. In 2010, the equity grant value was $15,505,013, and in 2011 it was $12,977,692. For 2012, the Board of Directors determined that sufficient economic alignment was attained and approved a market median LTI grant at $8,000,000.

COMPENSATION DISCUSSION AND ANALYSIS | Key Principles

Compensation Philosophy and Objectives

The philosophy underlying our executive compensation program is to 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 executive officers and other key employees necessary to deliver sustained high performance to our shareholders, customers and communities.

The Compensation Committee oversees our executive compensation and benefit programs. In its oversight of our compensation programs, the Compensation Committee is guided by the following principles:

- ***Pay for Performance:*** 2011 is the second year in which we have used a compensation structure based on peer-benchmarked performance metrics for our incentive plans, designed to drive superior results as compared to defense industry performance rather than internal operational goals.

- ***Industry Benchmarking:*** We evaluate our compensation programs and financial objectives on an annual basis and modify them in accordance with overarching industry and business conditions. When defining key operational (annual) and strategic (long-term) performance metrics, we seek to outperform our peers (a group of nine aerospace and defense companies). We also utilize two larger peer groups specifically to track and monitor executive compensation practices and levels in the overall marketplace of companies similar in revenue size to the Company.

- ***Ensure Leadership Retention and Succession:*** Compensation is designed to be competitive within our industry and retentive for key individuals who contribute to the achievement of business goals. Our programs are designed to motivate and reward NEOs for delivering operational and strategic performance and maximizing shareholder returns, while continuing to uphold our values.

- ***Align Pay Programs with Shareholder Interests:*** The Committee supports a compensation structure that places an appropriate level of compensation at risk based on our financial and non-financial (qualitative) performance, individual performance and relative total shareholder return. Our financial results predominantly determine the annual incentive compensation and are the sole factor in our long-term compensation. Achievement of both annual incentive goals and increased shareholder value will result in individual awards commensurate with results; however, failure to deliver shareholder value will negatively affect compensation for all NEOs. In addition, we have stock ownership guidelines for all executives and implemented holding requirements for equity grants beginning in 2010.

- ***Ensure Long-Term Sustained Performance:*** Our annual incentive plan includes both financial and non-financial metrics to ensure that we are building a strong foundation for growth and sustainable customer relationships. We expect all employees to adhere to the Company s values and execute annual plans while improving quality, customer satisfaction, employee engagement, diversity, safety and environmental performance.

- ***Risk Management:*** The Board of Directors evaluates the Company s risk profile on an ongoing basis to mitigate concerns of executives being overly leveraged to achieve near-term stock price growth. Both the Compensation Committee and its independent compensation consultant evaluate the mix of compensation at-risk linked to stock appreciation.

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COMPENSATION DISCUSSION AND ANALYSIS | KEY PRINCIPLES *(continued)*

HOW WE MAKE COMPENSATION DECISIONS

Role of Compensation Committee

The Compensation Committee is responsible for overseeing our compensation policies and programs, administering our incentive and equity compensation plans, and approving all 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 all compensation recommendations for elected officers of the Company. Among its duties, the Compensation Committee also:

- reviews market data and all other input from its independent compensation consultant;
- reviews and approves incentive goals and objectives relevant to elected officer compensation;
- evaluates the competitiveness of each elected officer s total compensation package; and
- approves any changes to each elected officer s total compensation package (other than the CEO), including, but not limited to, base salary, annual and long-term incentive award opportunities and payouts, and retention programs.

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

Role of Independent Compensation Consultant

The Compensation Committee retains an independent compensation consultant, Frederic W. Cook & Co. (the Compensation Consultant), to provide advice in determining the levels and structure of our executive compensation policies and procedures. 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 attends meetings of the Compensation Committee, as requested, and communicates with the Compensation Committee Chairperson between meetings; however, the Compensation Committee and the independent directors of the Board of Directors make final decisions on all compensation actions for the NEOs and other elected officers. 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, nor does it perform any services for, the Company.

The Compensation Consultant s role is to provide an independent review of market data and to advise the Compensation Committee on all compensation matters for elected officers, including the NEOs. The Compensation Consultant utilizes aerospace and defense industry market data supplied by both Aon Hewitt and Towers Watson and conducts an independent review of publicly available data.

The specific roles of the Compensation Consultant include:

- review our total compensation philosophy, peer groups and target competitive positioning for reasonableness and appropriateness;

- identify and advise the Compensation Committee on market trends and practices;

- provide 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

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

Role of Management

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

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COMPENSATION DISCUSSION AND ANALYSIS | KEY PRINCIPLES *(continued)*

The recommendations for elected officers include an assessment of each executive s performance, skills and industry knowledge, as well as succession and potential retention risks. The Chief Human Resources Officer provides tally sheets that summarize the historical and current total compensation and benefits for each NEO. These tally sheets are provided to the Compensation Committee to ensure that compensation decisions are made within our total compensation framework. The value of nonqualified deferred compensation, outstanding equity awards, health and welfare benefits, pension benefits and perquisites is also included.

Management also provides recommendations to the Compensation Committee regarding all 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.

Management conducts an annual performance assessment process during the first quarter of each year in which individual performance during the prior performance year is evaluated against pre-set financial, operational and individual goals. This practice ensures that compensation is tied to our financial and operating performance, individual achievement and demonstration of our strategic initiatives and values.

Use of Competitive Data

Industry Benchmarking for Performance

In 2010, we changed how we set goals for purposes of administering our annual incentive compensation plan, shifting from performance metrics linked to internal criteria to metrics based on peer benchmarks. We continued with this philosophy in 2011.

The Performance Peer Group consists of the nine largest competitor companies in the aerospace and defense market in the U.S. and Europe measured by sales. While we sometimes face competition from smaller companies in some market areas, in particular our Technical Services and Information Systems sectors, the Compensation Committee determined that this group is the most appropriate for measuring overall financial performance as the nine companies represent the majority of the value of contracts awarded in our competitive space. The Compensation Committee uses information about the Performance Peer Group for setting annual performance targets and evaluating performance for purpose of award payments under our annual incentive plans.

The direct competitors included in the Performance Peer Group are:

PERFORMANCE PEER GROUP		
BAE Systems	Finmeccanica	Lockheed Martin Corp.
The Boeing Company	General Dynamics	Raytheon Corp.
EADS	L-3 Communications	SAIC, Inc.

For peers with substantial commercial business (Boeing, EADS, General Dynamics and Finmeccanica), we focus our comparisons on the government businesses of these companies, when such data is available. Such data is generally available at the government business level for operating margin rate and awards, but free cash flow and asset turns are typically available only at the total company level.

Peer Groups for Evaluating Compensation Practices and Executive Pay

The Compensation Committee utilizes a Target Industry Peer Group as the reference for market data for executive compensation levels and practices. It is comprised of 14 companies, including six of the nine largest worldwide defense contractors with which we compete for executive talent (Boeing, General Dynamics, Honeywell International, Lockheed Martin and United Technologies). Eight additional companies were added to this list of six companies because they were prevalent in the core competitor peer lists. In addition, the Compensation Committee utilizes a broader industry peer group, the General Industry Peer Group, as a broader reference of executive compensation practices. The General Industry Peer Group is comprised of Fortune 100 companies (excluding financial services) participating in Aon Hewitt s executive compensation survey. For 2011, the General Industry Peer Group included 49 companies.

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COMPENSATION DISCUSSION AND ANALYSIS | Key Principles *(continued)*

It is the Company s pay philosophy to target the size-adjusted median level of total compensation opportunity, while positioning total direct pay elements (e.g. base salary, target annual incentive awards, and target long-term incentive award opportunities) at levels approximating the median of market for target performance. Actual salaries may differ from our stated market positioning based on experience, sustained performance, growth in job, and leadership ability. Actual annual incentive awards and long-term incentive awards opportunities reflect these factors, as well as Company and business performance. In 2011, the actual total compensation level of the NEOs ranged from 122% - 131% of the Target Industry Peer Group size-adjusted market median, with the exception of Jim Pitts, Corporate Vice President and President, Electronic Systems Sector. Mr. Pitts total compensation level was 152% of the size-adjusted market median, reflecting actual performance above market for the Electronic Systems Sector, as well as his participation and tenure in legacy pension benefits.

Target Industry Peer Group

The Target Industry Peer Group consists of the companies in the table below. For 2011, compared to the peers in the Target Industry Peer Group, we approximated the median in revenue and net income, we were between the 25th percentile and the median in number of employees, and we were at the 25th percentile in market capitalization value.

For 2011, the Target Industry Peer Group consisted of the following companies:

2011 TARGET INDUSTRY PEER GROUP	
3M Company	ITT Corp
The Boeing Company	Johnson Controls, Inc.
Caterpillar, Inc.	L-3 Communications Holdings, Inc.
Emerson Electric Company	Lockheed Martin Corp.
General Dynamics Corporation	Raytheon Corp.
Goodrich Corp.	SAIC, Inc.
Honeywell International, Inc.	United Technologies Corp.

General Industry Peer Group

For 2011, the General Industry Peer Group consisted of the following companies:

2011 GENERAL INDUSTRY PEER GROUP					
3M Company	Cisco Systems, Inc.	Ford Motor Company	IBM Corporation	PepsiCo, Inc.	The Home Depot, Inc.
Abbott Laboratories	Comcast Corporation	General Dynamics Corporation	Intel Corporation	Philip Morris International	The Procter & Gamble Company
Aetna, Inc.	CVS Corporation	General Electric Corporation	Johnson & Johnson	Sunoco, Inc.	The Walt Disney Company
Archer Daniels Midland Company	Deere & Company	General Motors Corporation	Johnson Controls, Inc.	SUPERVALUE, Inc.	United Technologies Corporation
AT&T, Inc.	Delta Air Lines, Inc.	HCA Holdings, Inc.	Kraft Food, Inc.	Target Corporation	United Health Group

Best Buy Company, Inc.	E.I. du Pont de Nemours & Company	Hewlett-Packard Company	Lockheed Martin Corporation	The Boeing Company	Valero Energy Corporation
Caterpillar, Inc.	Exxon Mobil Corporation	Honeywell International, Inc.	Merck & Co.	The Coca-Cola Co.	Verizon Communications, Inc.
Chevron Corporation	FedEx Corporation	Humana, Inc.	Metropolitan Life Insurance Company	The Dow Chemical Company	Wal-Mart Stores, Inc. Wellpoint, Inc.

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Elements of Compensation

For 2011 the compensation elements for the NEOs are summarized in the table below and described in more detail following the table.

Compensation Component	Key Characteristics	Purpose
Base Salary	Fixed compensation component. Reviewed annually and adjusted if and when appropriate.	Intended to compensate an executive officer fairly for the responsibility level of the position.
Annual Incentive Awards	Variable compensation component. Performance-based award determined by annual corporate performance as well as individual contributions to that performance.	Intended to motivate and reward executives for achieving short-term (annual) business objectives that drive overall performance; intended to encourage accountability by rewarding based on performance.
Long-Term Incentive Awards	Variable compensation component. Performance-based award opportunity, generally granted annually, which may include stock options, restricted performance stock rights or restricted stock rights. Amounts actually earned will vary based on relative total shareholder return.	Intended to motivate executive officers to achieve our business objectives by tying incentives to the performance of our stock over the long-term and reinforce the link between the interests of our executive officers and our shareholders. Serves as key retention vehicle for executives.
Health and Welfare and Retirement Plans	Fixed compensation component.	Intended to provide benefits that promote employee health, productivity and retention.
Perquisites and Other Benefits	Fixed compensation component.	Intended to provide a business-related benefit to our Company, and to assist in attracting and retaining executive officers.
Severance Benefits	Fixed compensation component.	Intended to provide temporary income replacement following an executive officer s involuntary termination of employment. The CEO is not covered under our severance plans or policies. No executives have any change in control agreements as of December 31, 2010.

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COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS *(continued)*

Salaries

Base salaries of the NEOs are targeted at the competitive median on a job-by-job basis with individual variations explained by differences in each incumbent s experience, skills and sustained performance. The Compensation Committee also considers internal pay relationships and retention. The Compensation Committee reviews the salaries of the NEOs on an annual basis, or at the time of promotion or a substantial change in responsibilities, and makes adjustments as needed, based on the Company s Compensation Philosophy described above.

Decisions for 2011 and 2012

In 2011, the Compensation Committee approved base salary increases of 2.9% to 3.3% for all NEOs except the CEO. For the CEO, the Compensation Committee approved a base salary increase of 11%. Competitive market data presented prior to the February 2011 Compensation Committee meeting indicated that Mr. Bush s base salary was anticipated to lag the Target Industry Peer Group median by 13%. The median market level was determined by conducting a regression analysis of the data based on revenue size. It was based on this market data that the Compensation Committee determined to provide Mr. Bush a merit and an equity adjustment to base salary of 11%.

For 2012, the Compensation Committee again reviewed the peer group data and determined that no base salary adjustments were necessary to maintain competitive base salary pay at the market median for any of the NEOs, including the CEO.

Incentive Compensation

We aspire to lead our industry in sustainable performance with strong, enduring values. Two years ago, we transitioned from plan-based metrics to peer-based metrics for both the annual and long-term incentive plans. For each plan, our objective is to align the metrics to drive shareholder value and measure our performance against our competitors.

Selection of Performance Criteria

As discussed above, for purposes of measuring performance we use the Performance Peer Group to evaluate key financial metrics of our industry.

Our objective in selecting performance goals for the Annual Incentive Plan and Long-Term Incentive Stock Plan is to establish metrics that enhance shareholder value while complementing one another in support of strong Company performance over the longer term.

For the Annual Incentive Plan, we select a mix of financial and non-financial metrics to measure our short-term performance year over year. The following financial metrics were selected based on enhancing shareholder value in the near term:

- new awards focusing the Company on maintaining optimal market share;
- Pension-Adjusted OM Rate establishing high performance expectations for the Company; and
- FCF conversion focusing on the quality of net earnings.

To further enhance shareholder value over a longer time frame, for the NEOs the Long-Term Incentive Stock Plan has moved away from two operational financial metrics (Pension-Adjusted OM Rate and Return on Net Assets) to a relative Total Shareholder Return metric measured against the Performance Peer Group and the S&P Industrial Index. The plans are discussed in more detail below.

Determination of Incentive Compensation

Under our shareholder-approved 2002 Incentive Compensation Plan, the Compensation Committee approves annual incentive compensation targets for each executive position that vary with market levels, individual job level, scope, and overall influence on the Company s business results. The Compensation Committee considers the market data and the recommendations of the Compensation Consultant, as well as recommendations of management in determining appropriate annual incentive target levels for the NEOs. Mr. Bush s target of 150% of base salary was determined to be at market median and target bonuses were anticipated to remain flat from 2010 to 2011. Thus, in 2011 there were no changes in Mr. Bush s target bonus percentage nor the target bonus percentage of any other NEO. The target incentive award (Target Bonus) represents a percentage of each executive 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 and the individual s performance, to determine the final bonus award amount.

2011 Annual Incentive Targets

Name	Target Payout %	Payout Range % of Salary
Wesley G. Bush	150%	0% - 300%
James F. Palmer	75%	0% - 150%
Gary W. Ervin	75%	0% - 150%
James F. Pitts	75%	0% - 150%
Linda A. Mills	75%	0% - 150%

For 2011, each NEO s Target Bonus was determined based on a Northrop Grumman Company Performance Factor (CPF) and an Individual Performance Factor (IPF). Within the annual incentive formula described below, the CPF can range from 0% to 200%. The IPF can range from 0% to 125%. Final bonus award payments are capped at 200% of an individual s target bonus.

Annual incentive formula for 2011:

Base Salary x Target Payout % = Target Bonus

Target Bonus x CPF x IPF = Final Bonus Award

The annual incentive payments made are designed to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code (the 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 2011 performance year were far 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 in order to establish the IPF for those NEOs for the year. Each NEO s individual performance is determined based upon consideration of the following factors:

- Financial performance of the sector and Company as a whole;
- Performance on non-financial goals, including Company-level goals and sector-specific operating factors;
- Strategic leadership and vision, both at the sector level and in support of the Company s objectives;
- Program execution and performance;
- Customer relationships; and
- Peer and employee relationships/engagement.

The Compensation Committee reviews all individual and Company performance information, as well as the comparison to market data, and approves bonus amounts. The 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 full discretion to make adjustments to the annual 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. 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.

2011 Annual Incentive Goals and Results

The Company Performance Factor is determined based on the Company s achievement of both financial and non-financial goals. The three financial metrics focus on capturing new business awards, Pension-Adjusted OM Rate, and FCF conversion. The six non-financial metrics are customer satisfaction, diversity, engagement, environmental, quality, and safety. They are determined as follows:

Customer Satisfaction measured in terms of feedback received from customers 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 accomplishment of activities resulting from our enterprise-wide application of an 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 peer and broader industry benchmarks.

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

Environmental Sustainability measured in terms of the reduction, in metric tons, of greenhouse gases emissions, and solid waste and water.

The final CPF equals the financial metric score multiplied by the assessment for the non-financial metrics, which are scored in the range of 80% to 120%. In 2011, the non-financial metrics did not impact the NEO s overall score. The Compensation Committee may adjust the score either positively or negatively based upon the amount of earnings charges recorded for the year. The adjustment can increase the score by a maximum of five percentage points if the actual Pension-Adjusted OM Rate is equal to or above target and minimal charges are recorded, or can decrease the score by up to five percentage points if significant charges are recorded and the target Pension-Adjusted OM Rate is not achieved.

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COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS *(continued)*

Each CPF financial metric/goal is described below and shown with its relative weighting:

Metric/Goal	Weighting	Threshold Performance	Target Performance	Maximum Performance	2011 Actual Performance
New Business Awards*	20%	$ 18.0	$ 22.0	$ 28.0	$ 25.3
Pension-Adjusted OM Rate/Risk	40%	8.5%	9.5%	10.5%	10.9%
FCF Conversion**	40%	80%	100%	135%	120%

* Dollar amounts in billions.

** FCF to net income conversion.

Based on Company performance for the three factors shown in the table above, the final financial score for the Company was 179%. For non-financial metrics, the Company score was 100%. Multiplying the financial metric and the non-financial metric scores yields 179%. Based on overall assessment of the four operating units, the CEO recommended to the Compensation Committee a final CPF of 179%. After reviewing the Company s overall performance, the Compensation Committee approved a final CPF of 179%.

Decisions for 2011

Mr. Bush

During its meeting in February 2012, the Compensation Committee applied the Company performance factor of 179% to Mr. Bush s target bonus and set his IPF at 100% (target). In this determination, the Committee considered the following: Corporate performance which exceeded target on all annual incentive plan metrics of new business awards, pension-adjusted operating margin rate, and FCF conversion, as well as other Company achievements and individual performance that it believed contributed to higher performance relative to our peers and greater competitiveness within our industry, including:

- his leadership of the actions across the company including program execution, cost reduction, risk management, and organizational restructuring that enabled significant improvements in the Company s operating performance as reflected in its margin rate expansion and cash generation;

- actions to deliver value to shareholders including returning substantial cash to shareholders of $2.8 billion in 2011 through share repurchases and dividends, along with the delivery to shareholders of $1.8 billion in equity value through the spin-off of our former shipbuilding business;

- the strong positioning of the Company s portfolio of capabilities in alignment with the customers investment priorities, and the increased alignment of the company focus on its customers through the relocation of the Company s corporate offices from Los Angeles, California to the Washington, D.C. area; and

-

his effective leadership in implementing improvements in the Company s quality programs, diversity and capability of the leadership team, and environmental sustainability.

Based on these factors, including its own evaluation of his performance, in February 2011, the Committee recommended, and the independent members of our Board of directors approved, an annual incentive award of $4,027,500 for Mr. Bush for 2011, compared to an annual incentive award of $3,037,500 for 2010, a 32.6% increase.

Other NEOs

In 2011, our NEOs performed well against their individual performance objectives. As discussed above, the IPF can range from 0% to 125%. For 2011, the IPF for our NEOs averaged 109%. In the case of the other NEOs, Mr. Bush formulated recommendations for each individual based on his assessment of their performance against sector performance metrics and individual performance and presented these recommendations to the Committee for its consideration.

Based on these recommendations, as well as the performance of the Company overall as previously described and its own evaluation of their performance, the CEO recommended, and the Compensation Committee approved, the following annual incentive awards for each of the other NEOs:

Name	2011 Annual Incentive ($)*
James F. Palmer	$ 1,250,000
Gary W. Ervin	$ 1,250,000
James F. Pitts	$ 1,200,000
Linda A. Mills	$ 1,150,000

* Details on the range of bonuses that could have been payable based on 2011 performance are provided in the Grants of Plan-Based Awards table. Actual bonus payouts for 2011 performance are provided here and in the Summary Compensation Table.

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COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS *(continued)*

Long-Term Incentive Compensation

Decisions for 2011

In determining the amount of individual long-term incentive awards, the Committee considers an executive officer s individual performance during the preceding year, potential future contributions, retention considerations, as well as market data for the executive s officer s position based on the Target Industry Peer Group analysis discussed above in this CD&A. We utilize peer size-adjusted median data expressed in terms of dollar values to determine the value of the equity to be granted to each NEO. The Compensation Committee believes that value-based awards more effectively allow for the delivery of equity that is consistent with awards given to individuals holding comparable positions at peer companies.

In 2011, after determining the award value for the NEOs based on the market data, and individual factors as described above, the Compensation Committee granted approximately 33.3% of the value in the form of stock options (which only deliver anticipated value if stock appreciation occurs), 33.3% of the value in the form of Restricted Performance Stock Rights (RPSRs) (which delivers value based on relative Total Shareholder Return), and 33.3% in the form of Restricted Stock Rights (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 vest 100% after the three year performance period (2011-2013). Stock options granted to the NEOs in 2011 vest over three years in equal annual installments and expire after seven years. RSRs were added to the LTI mix in 2011 and vest 100% after 4 years.

Beginning in 2012, we will rebalance the LTI mix of equity compensation for elected officers who are also members of the CPC in response to shareholder feedback indicating a preference for full-value equity grants. In 2012 CPC members will not receive annual grants of stock options and will instead be granted RPSRs and RSRs only.

The Compensation Committee evaluates RPSR performance requirements each year to ensure they are aligned with our objectives. For the 2011 grant, the Compensation Committee reviewed the performance metrics and determined that for elected officers who are members of the CPC, including all NEOs, performance would be measured in terms of relative Total Shareholder Return (TSR). Relative TSR was selected as the performance metric as it has the most direct line of sight to creating value for our shareholders.

TSR is measured by comparing our share performance over a three year period to the performance of the Performance Peer Group, and to the S&P Industrials Index which comprises companies within the S&P 500 classified as Industrials, reflecting the range of similar investment alternatives available to our shareholders. Shares that ultimately vest and are paid out under an RPSR award granted to the executive in 2011 can vary from 0% to 200% of the original RPSR award granted. RPSR awards may be paid in shares, cash or a combination of shares and cash. For the 2011 grant, dividends were not paid or earned on RPSR awards.

	Weight	Relative TSR Percentile		
RPSRs Earned		0%	100%	200%
S&P Industrials	50%	25^{th}	50^{th}	80^{th}
Performance Peer Group	50%	25^{th}	50^{th}	80^{th}

Recently Completed RPSR Performance Period (2009 2011)

During the February 2012 meeting, the Compensation Committee reviewed performance for the January 1, 2009 to December 31, 2011 RPSR performance period. For the 2009 grant, the Compensation Committee focused on improving pension-adjusted operating margin rate and Return on Net Assets (RONA) and established the following performance criteria:

Metric/Goal	Weighting	Threshold Performance	Target Performance	Maximum Performance	2011 Actual Performance
2011 Pension-Adjusted OM Rate*	50%	8.4%	9.2%	10.0%	10.9%
2011 Pension-Adjusted RONA **	50%	13.0%	14.0%	15.0%	15.1%

* Operating margin adjusted for FAS/CAS net pension income

** Return on net assets excluding FAS/CAS net pension income and pension assets and liabilities

Performance Results:

- 2011 Pension-Adjusted OM Rate of 10.9% resulted in a score of 200%. Pension-Adjusted OM improved from 9.1% in 2009 (beginning of the performance period) to 10.9% in 2011 (end of the performance period).

- 2011 RONA of 15.1% resulted in a score of 200%. RONA improved from 12.7% in 2009 (beginning of the performance period) to 15.1% in 2011 (end of the performance period).

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COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS *(continued)*

The Compensation Committee used discretion to adjust the financial score from 200% to 160% taking into consideration the IRS deferred tax correction recorded to retained earnings as disclosed in Note 10 to the Company s consolidated financial statements in the 2011 Form 10-K and its impact on RONA.

In early 2012, the NEOs received payouts with respect to the performance awards that were granted in February 2009 for the three-year performance period ending December 31, 2011. Consistent with the performance scores in the annual incentive plan, these awards were paid at 160% of the target number of shares initially awarded. This is reflective of the strong performance over the three-year period as indicated above.

Other Benefits

This section describes other benefits the NEOs receive. These benefits are non-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 non-qualified retirement plans that are available to certain of our executives, which are designed to restore benefits that were limited under the tax-qualified plans or to provide supplemental benefits. Compensation, age, and 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 Non-Qualified Deferred Compensation Table.

Some of the plans were assumed in acquisitions, and participants may be legally or contractually entitled to accrued benefits. Nevertheless, we periodically assess the cost and benefits of the plans as well as competitive developments, and have frozen a number of the plans. Although the NEOs may receive benefits from different plans due to plan and legal requirements, the Committee assesses aggregate benefits available to the NEOs and has imposed an overall cap on pension benefits for elected officers including NEOs (subject to small variations due to contractual restrictions under the plans). Each elected officer s total pension benefit under all pension plans combined is generally limited to no more than 60% of his or her final average pay.

We maintain a retiree medical plan for certain elected officers that was closed to new entrants in 2007. Additional information about this plan can be found in the Retiree Medical Arrangement section of the tables that follow this CD&A, adjacent to the Termination Payment Tables.

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 to executives and are useful in attracting, retaining, and motivating talented executives. Perquisites provided to the NEOs in 2011 are detailed in the 2011 Summary Compensation Table.

Use of Company Aircraft

In 2004, the Board of Directors determined that the CEO should avoid traveling by commercial aircraft for purposes of security, rapid availability and communications connectivity during travel. The Board of Directors has since directed that the CEO utilize Company-provided aircraft for all travel. Throughout the year, if the CEO uses Company-provided aircraft for personal travel, the costs for such travel are imputed as income and subject to the appropriate tax reporting according to Code regulations.

Security Arrangements

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

In 2010, we received specific information from Federal law enforcement officials that led us to conclude that there were threats to the Company and its principals. Based on that information and an ongoing dialogue with law enforcement officials, the Board of Directors has required that Mr. Bush and certain NEOs and elected officers receive varying levels of residential and travel protection. Mr. Bush receives additional protection based on the specific threat information. That level of protection was for a partial year in 2010 and for the full year in 2011.

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

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

Corporate Office Relocation

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

Severance and Change in Control Benefits

Effective January 1, 2010, the Compensation Committee eliminated excise tax-gross ups related to change in control severance payments. In March 2010, the Compensation Committee approved the termination of all individual change in control agreements and change in control severance plans as of December 31, 2010.

We maintain the Northrop Grumman Severance Plan for Elected and Appointed Officers that offers severance to officers who qualify and are approved to receive such treatment. The purpose of the severance plan is to help bridge the gaps in an executive s income and health coverage during a period of unemployment following termination. Mr. Bush is not covered by, or eligible for, any benefits under our Severance Plan for Elected and Appointed Officers or any other Company severance plan or policy.

The Severance Plan for Elected and Appointed Officers provides the following:

- lump sum cash payment = 1 $^{1}/2$ x (Annual Base Salary + Target Bonus for the year of termination);
- continue to pay Company portion of medical & dental benefits for 18 months concurrent with COBRA coverage. The employee is responsible for his/her portion;
- outplacement assistance up to 1 year after termination; and
- continued reimbursement of eligible financial planning expenses for the year of termination and the following year, up to a maximum of $15,000 per year.

Additional information on the benefits provided under severance plans is provided in the Potential Termination Payment tables.

Policies and Procedures

Stock Holding Requirements

In February 2010, we implemented a new holding period requirement that became effective for all new long-term incentive grants beginning in 2010, further emphasizing the importance of sustainable performance and appropriate risk-management behaviors. Under this policy, all elected and appointed officers are required to hold 50% of their net shares from all future RPSR payments and stock option exercises for a period of three years. These restrictions will generally continue upon termination and retirement; however, shares acquired from exercises or payments following termination or retirement occurring one year after separation from the Company will not be subject to the holding requirement.

Stock Ownership Guidelines

We maintain stock ownership guidelines for our NEOs and other elected officers to further promote alignment of management and shareholder interests. These guidelines require that the CEO and other elected officers 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 Stock Ownership Guidelines are as follows:

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

Shares that satisfy the stock ownership guidelines include:

- Company stock owned outright by an officer;
- RSRs, whether or not vested; and
- the value of equivalent 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. In 2011, all NEOs were in compliance with their respective guidelines. The Compensation Committee continues to monitor officer compliance and will conduct a full review again in 2012.

In September 2008, the Compensation Committee approved a stock trading program under SEC Rule 10b5-1.

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COMPENSATION DISCUSSION AND ANALYSIS | KEY COMPONENTS OF OUR PROGRAMS *(continued)*

Under this program, eligible employees (NEOs, vice presidents and directors) may establish a plan during any open window period under which sales may occur over the following twelve months, commencing no sooner than the next window period. The Corporate Secretary will disclose annually to the Compensation Committee the plans adopted, terminated or modified by elected officers.

Grant Date for Equity Awards

Historically, annual grant cycles for stock options and other 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 perspective. The Compensation Committee reviews and approves long-term incentive grants during its scheduled meeting.

At its February 2011 meeting, the Compensation Committee reviewed and approved the long-term incentives for the NEOs and other participating employees. The 2011 grants were approved after the filing of the Company s 2010 Annual Report on Form 10-K. The Compensation Committee believes it is preferable to have the grant occur following the release of detailed financial information about the Company. This approach allows for the stock price to be fully reflective of the market s consideration of material information disclosed in the Company s Annual Report on Form 10-K.

Tax Deductibility of Pay

Section 162(m) of the Code generally limits the annual tax deduction to $1 million per person for compensation paid to the Company s CEO, CFO and the next three highest-paid NEOs. 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 grants of RSRs are not considered performance-based under Section 162(m) and, as such, may not be deductible.

In 2011, since the CEO s salary was above the $1,000,000 threshold, a portion of his salary and his perquisites are not deductible by the Company.

Executive Compensation Recoupment

Ethical behavior and integrity are an important priority for our leadership. In support of this, the Compensation Committee approved an executive compensation recoupment policy (also known as a clawback policy) at its December 2008 meeting that became effective in the first quarter of 2009. The policy applies to the NEOs and all other employees at the level of vice president or higher. When first adopted,

this policy provided for recovery by the Company of annual and long-term incentive compensation when those incentive payments were determined to have been based on financial results that were later restated due to misconduct.

In the first quarter of 2010, the Compensation Committee strengthened the policy to allow for the recovery of incentive compensation payments based on restated financial results regardless of whether misconduct was the cause of the restatement. The Compensation Committee believes this broader definition governing the basis for incentive compensation recoupment better serves shareholder interests and those of the Company.

In the event of a restatement of our financial results, the Compensation Committee is responsible for evaluating whether any incentive compensation payments based on inaccurate financial results should be recovered by the Company.

Say-on-Pay

Beginning in 2011, we gave our shareholders an opportunity to provide feedback on our executive compensation program and related proxy disclosure through an advisory vote at our annual shareholders meeting. Shareholders were asked to approve, on an advisory basis, the compensation paid to the NEOs and indicate the frequency with which they prefer the Company to conduct the compensation advisory vote. A significant percentage of shareholders indicated approval of the compensation of the NEOs, with 76.4% of the votes cast in favor of the proposal. Shareholders also indicated a strong preference to hold the advisory vote annually, with 80% of the votes supporting the Board s recommendation.

In light of the results of the advisory vote, and as part of our ongoing effort to enhance and refine our pay-for- performance compensation program, we took the following actions to better understand shareholder concerns with respect to executive compensation and the related disclosures in the CD&A:

- initiated a new shareholder engagement strategy;
- senior management held meetings with various of the Company s shareholders to better understand any views expressed in the vote results or other concerns; and
- management made several changes as referenced in the executive summary on page 33 of this Proxy Statement.

In addition, in consideration of the dialogue with shareholders, the Compensation Committee determined to shift away from the use of stock options beginning in 2012. Shareholders expressed a preference for full-value shares because they are less dilutive and because they believe full-value shares provide a stronger linkage to shareholder interests. In 2012, the Compensation Committee approved a mix of LTI awards to NEOs that represented 70% RPSRs and 30% RSRs.

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COMPENSATION DISCUSSION AND ANALYSIS | SUMMARY COMPENSATION TABLE

2011 Summary Compensation Table

Name & Principal Position	Year	Salary (1) ($)	Bonus (2) ($)	Stock Awards (3) ($)	Option Awards (3) ($)	Non-Equity Incentive Plan Compensation (4) ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (5) ($)	All Other Compensation (6) ($)	Total ($)
Wesley G. Bush	2011	1,471,251	0	9,400,723	3,576,969	4,027,500	5,276,169	2,489,832	26,242,444
	2010	1,334,615	0	8,349,848	7,155,165	3,037,500	699,987	2,272,297	22,849,412
Chairman, Chief Executive									
Officer and President	2009	950,000	0	4,121,084	2,382,560	1,068,750	1,702,285	157,401	10,382,080
James F. Palmer	2011	845,258	250,000	2,350,181	894,246	1,250,000	1,190,384	918,134	7,698,203
	2010	820,194	0	4,907,860	4,477,369	1,000,000	994,044	151,137	12,350,604
Corporate Vice President and									
Chief Financial Officer	2009	800,001	233,333	2,015,552	1,165,941	820,000	520,661	133,373	5,688,861
Gary W. Ervin	2011	845,257	0	3,628,648	894,246	1,250,000	1,146,473	202,873	7,967,497
	2010	781,731	0	2,406,340	1,524,405	1,000,000	483,435	195,386	6,391,297
Corporate Vice President and									
President, Aerospace Systems	2009	598,077	0	1,576,450	912,554	600,000	286,428	97,280	4,070,789
James F. Pitts (7)	2011	845,258	0	2,350,181	894,246	1,200,000	2,354,970	164,830	7,809,485
	2010	781,731	0	2,406,340	1,524,405	1,000,000	1,793,114	122,898	7,628,488
Corporate Vice President and									
President, Electronic Systems	2009	600,001	0	1,576,450	912,554	600,000	0	76,107	3,765,112
Linda A. Mills (8)	2011	770,233	0	2,115,147	804,818	1,150,000	2,434,630	230,588	7,505,416
Corporate Vice President and	2010	721,154	0	2,208,350	1,400,034	900,000	1,551,922	265,335	7,046,795
President, Information Systems									

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

(2) Pursuant to his March 12, 2007 offer letter, Mr. Palmer received a signing bonus of $700,000 in three installments ($233,333) each in 2007, 2008 and 2009. Mr. Palmer also received a recognition bonus for the spin-off of our former shipbuilding business in 2011.

(3) The dollar value shown in these columns is equal to the total grant date fair value of RPSRs, RSRs, and options granted during 2011. For information on each grant, see the 2011 Grants of Plan-Based Awards table. For a discussion on valuation assumptions, see the discussion in Note 17 of the Company s 2011 Form 10-K for the fiscal year ended December 31, 2011, adjusted to exclude forfeitures. The maximum grant date value of 2011 RPSRs for each NEO, which assumes a 200% maximum payout, is listed below:

¡Wesley G. Bush	$ 8,523,026
¡James F. Palmer	$ 2,130,757
¡Gary W. Ervin	$ 2,130,757

¡James F. Pitts	$ 2,130,757
¡Linda A. Mills	$ 1,917,667

(4) These amounts were paid pursuant to the Company s annual cash bonus program. This column includes amounts that were deferred under the savings and nonqualified deferred compensation plans.

(5) The amounts in this column relate solely to the increased present value of the executive s pension plan benefits (see the description of these plans under the Pension Benefits table). There were no above-market earnings in the nonqualified deferred compensation plans (see the description of these plans under the Nonqualified Deferred Compensation table). The amount accrued in each year differs from the amount accrued in other years due to an increase in the number of years of service and any increases or decreases in pay (salary and bonus). The amount reflected is also 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. Of the $5,276,169 change in pension value in 2011 for Mr. Bush, approximately $1,500,000 was due to the lower discount rate used in 2011, $3,000,000 was due to the increase in his pay, and $700,000 was due to an additional year of age and service.

(6) The 2011 amount listed in this column for Mr. Bush includes medical, dental, life and disability premiums ($51,616), Company contributions to Northrop Grumman defined contribution plans ($180,350), financial planning/income tax preparation ($22,850) and other perquisites including personal liability insurance and executive physicals for years 2009 through 2011 ($7,000). In addition, the Company incurred $2,228,016 in costs related to security protection for Mr. Bush. These costs included $250,882 attributable to personal travel, including travel expenses for family members accompanying Mr. Bush while on travel, on Company aircraft consistent with the Company s security program.

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COMPENSATION DISCUSSION AND ANALYSIS | SUMMARY COMPENSATION TABLE *(continued)*

The 2011 amount listed in this column for Mr. Palmer includes medical, dental, life and disability premiums ($39,500), Company contributions to Northrop Grumman defined contribution plans ($73,810), security costs and personal travel on Company aircraft, including travel expenses for family members accompanying Mr. Palmer while on travel ($33,229), relocation expenses ($750,000) and other perquisites including financial planning/income tax preparation, personal liability insurance and executive physicals for years 2009 through 2011 ($21,595).

The 2011 amount listed in this column for Mr. Ervin includes medical, dental, life and disability premiums ($39,500), Company contributions to Northrop Grumman defined contribution plans ($73,810), security costs and personal travel on Company aircraft, including travel expenses for family members accompanying Mr. Ervin while on travel ($69,379) and other perquisites including financial planning/income tax preparation, personal liability insurance and executive physicals for years 2009 through 2011 ($20,184).

The 2011 amount listed in this column for Mr. Pitts includes medical, dental, life and disability premiums ($50,606), Company contributions to Northrop Grumman defined contribution plans ($72,585), security costs and personal travel on Company aircraft, including travel expenses for family members accompanying Mr. Pitts while on travel ($36,796) and other perquisites including personal liability insurance and executive physicals for years 2009 through 2011 ($4,843).

The 2011 amount listed in this column for Ms. Mills includes medical, dental, life and disability premiums ($39,686), Company contributions to Northrop Grumman defined contribution plans ($66,809), security costs and personal travel on Company aircraft, including travel expenses for family members accompanying Ms. Mills while on travel ($103,158) and other perquisites including personal liability insurance, financial planning/income tax preparation and executive physicals for years 2010 and 2011 ($20,935).

Method for Calculating Personal Use of Company Aircraft Value

The following method was used to calculate the value of personal use of Company aircraft described in the paragraphs above. The Company calculates the incremental cost of each element, which includes trip-related crew hotels and meals, in-flight food and beverages, landing and ground handling fees, hourly maintenance contract costs, hangar or aircraft parking costs, fuel costs based on the average annual cost of fuel per mile flown, and other smaller variable costs. Fixed costs that would be incurred in any event to operate Company aircraft (e.g., aircraft purchase costs, maintenance not related to personal trips, and flight crew salaries) are not included. The amount related to the loss of tax deduction to the Company due to the personal use of corporate aircraft under the Internal Revenue Code is not included.

Method for Calculating Personal Security Costs

As discussed above under Security Arrangements, the Company provides certain NEOs with residential and personal security protection due to the nature of our business, which dictates certain security and personal safety requirements. The amounts reflected in the All Other Compensation column include expenses for 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 for each trip.

(7) Due to the technical interaction of two pension plans, when calculated pursuant to SEC reporting rules, Mr. Pitts net accrual for 2009 was negative, which is reported as zero in the column entitled Change in Pension Value and Non-Qualified Deferred Compensation Earnings.
(8) Ms. Mills was not a named executive officer in 2009; therefore, data for 2009 are not applicable.

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2011 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)						
Name & Principal Position	**Grant Type**	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All Other Stock Awards: Number of Shares of Stock or Units (2)(4) (#)**	**All Other Option Awards: Number of Securities Underlying Options (2)(5) (#)**	**Exercise or Base Price of Option Awards (2) ($/Sh)**	**Grant Date Fair Value of Stock and Option Awards (2)(6)**
Wesley G. Bush	Incentive Plan		0	2,250,180	4,500,360							
Chairman, Chief	RPSR	2/15/11				0	61,636	123,272				5,139,210
	RSR	2/15/11							61,636			4,261,513
Executive Officer and President	Options	2/15/11								262,271	69.14	3,576,969
James F. Palmer	Incentive Plan		0	637,561	1,275,122							
Corporate Vice	RPSR	2/15/11				0	15,409	30,818				1,284,802
	RSR	2/15/11							15,409			1,065,378
President and Chief Financial Officer	Options	2/15/11								65,568	69.14	894,246
Gary W. Ervin	Incentive Plan		0	637,560	1,275,120							
Corporate Vice	RPSR	2/15/11				0	15,409	30,818				1,284,802
	RSR	2/15/11							15,409			1,065,378
President and	RSR Retention	2/15/11							18,491			1,278,468
President, Aerospace Systems	Options	2/15/11								65,568	69.14	894,246
James F. Pitts	Incentive Plan		0	637,561	1,275,122							
Corporate Vice	RPSR	2/15/11				0	15,409	30,818				1,284,802
	RSR	2/15/11							15,409			1,065,378
President and President, Electronic Systems	Options	2/15/11								65,568	69.14	894,246
Linda A. Mills	Incentive Plan		0	581,288	1,162,575							
Corporate Vice	RPSR	2/15/11				0	13,868	27,736				1,156,314
	RSR	2/15/11							13,868			958,834
President and President, Information Systems	Options	2/15/11								59,011	69.14	804,818

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

(2) The number of shares and exercise prices reported in this table reflect the terms of the awards and the value of the awards on the date they were granted and do not reflect subsequent adjustments that were made pursuant to the terms of the 2001 Long-Term Incentive Stock Plan

and the awards to reflect the effect of the subsequent spin-off of our shipbuilding business. For additional information on the effect of such adjustments, see the Outstanding Equity Awards at 2011 Fiscal Year End below.

(3) These amounts relate to RPSRs granted in 2011 under the 2001 Long-Term Incentive Stock Plan. Each RPSR represents the right to receive a share of the Company s common stock upon vesting of the RPSR. The RPSRs may be earned based on relative Total Shareholder Return over a three-year performance period commencing January 1, 2011 and ending December 31, 2013. The payout will occur in early 2014 and may range from 0% to 200% 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 retirement, death or disability. See the Severance section for treatment of RPSRs in these situations and upon a change in control.

(4) These amounts relate to RSRs granted in 2011 under the 2001 Long-Term Incentive Stock 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 a 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 either shares or cash. Mr. Ervin also holds RSRs that require employment through a vesting period to earn the award (100% after four years, although full vesting results from death or disability). See the Severance section for treatment of RSRs in these situations and upon a change in control.

(5) These amounts relate to non-qualified stock options granted in 2011 under the 2001 Long-Term Incentive Stock Plan. The exercise price for the stock options equals the closing price of the Company s common stock on the date of grant. Stock options vest in one-third installments on the first three anniversaries of the grant date and become fully vested after three years. The stock options expire seven years from the date of the grant. The stock options may also vest upon a change in control under certain circumstances, and a portion of the stock options may vest upon termination due to retirement, death or disability. See the Severance section for more information about these situations.

(6) For assumptions used in calculating the grant date fair value per share, see the discussion in Note 17 of the Company s 2011 Form 10-K for the fiscal year ended December 31, 2011, adjusted to exclude forfeitures.

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COMPENSATION DISCUSSION AND ANALYSIS | OUTSTANDING EQUITY AWARDS TABLE

Outstanding Equity Awards at 2011 Fiscal Year End

	Option Awards (5)			Stock Awards (5)
Name & Principal Position	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 (#)	