

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

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Check the appropriate box:

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

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Northrop Grumman Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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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

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

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

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

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

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

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

By order of the Board of Directors,

Jennifer C. McGarey

Corporate Vice President and Secretary

2980 Fairview Park Drive

Falls Church, Virginia 22042

April 6, 2012

IMPORTANT

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

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

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.

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

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SUMMARY INFORMATION

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

BUSINESS HIGHLIGHTS

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

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

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

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

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

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

this Proxy Statement.

I NOTICE OF ANNUAL MEETING OF SHAREHOLDERS AND 2012 PROXY STATEMENT

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

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

CEO Total Direct Compensation

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

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

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

CORPORATE GOVERNANCE HIGHLIGHTS

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

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

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

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

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

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

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

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

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QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

Why am I receiving this Proxy Statement?

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

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

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

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

Who is entitled to vote at the Annual Meeting?

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

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

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

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

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

What am I being asked to vote on?

The proposals scheduled to be voted on are:

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

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

What are the Board of Directors recommendations?

The Board of Directors recommends a vote:

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

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

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

What is a broker non-vote?

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

How do I vote my shares?

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

with the shareholder's instructions. If no instructions are given, the shares will be voted according to the recommendations of the Board of Directors. Registered sharehol