

NORTHROP GRUMMAN CORP /DE/  
Form PRE 14A  
March 27, 2007

**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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
  - Definitive Proxy Statement
  - Definitive Additional Materials
  - Soliciting Material Pursuant to §240.14a-12
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

**Northrop Grumman Corporation**

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- 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:

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(1) Amount Previously Paid:

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

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(3) Filing Party:

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(4) Date Filed:

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April 6, 2007

Dear Fellow Stockholder:

On behalf of the Board of Directors, I cordially invite you to attend Northrop Grumman Corporation's 2007 Annual Meeting of Stockholders. This year's meeting will be held Wednesday, May 16, 2007 at 10:00 a.m., at the Company's Space Technology operating sector, located in Redondo Beach, California. I look forward to personally greeting those of you who are able to attend the meeting. If you are unable to join us in person, the meeting will be Web-cast through the Northrop Grumman Web site at [www.northropgrumman.com](http://www.northropgrumman.com).

At this meeting, stockholders will vote on matters set forth in the accompanying notice of Annual Meeting and Proxy Statement. I will also provide a report on the Company and will entertain questions of general interest to the stockholders.

Your vote is important. Please review the instructions on the proxy or voting instruction card. Whether or not you plan to attend the annual meeting, I hope you will vote as soon as possible. You may vote over the Internet, by telephone, or by mailing a proxy or voting instruction card.

One of our Company's current directors, General John T. Chain, Jr., will not stand for re-election due to the Company's policy that directors retire at the Annual Meeting following his or her 72<sup>nd</sup> birthday. Jack has made many significant contributions to our Company, most recently serving as our independent lead director. On behalf of the entire Board, I offer my sincere thanks for his many years of service.

Thank you for your ongoing support of and continued interest in Northrop Grumman Corporation.

Sincerely,

Ronald D. Sugar

Chairman and Chief Executive Officer

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
AND PROXY STATEMENT**

**NOTICE**

The Annual Meeting of Stockholders of Northrop Grumman Corporation (the Company) will be held on Wednesday, May 16, 2007 at 10:00 a.m. at the Space Technology Presentation Center, One Space Park, Redondo Beach, California 90278.

Stockholders at the close of business on March 20, 2007 are entitled to vote at the Annual Meeting. The following items are on the agenda:

- (1) Election of ten directors, each for a one-year term expiring in 2008;
- (2) Proposal to ratify the appointment of Deloitte & Touche LLP as Northrop Grumman's independent auditors for fiscal year ending December 31, 2007;
- (3) Proposal to amend Northrop Grumman's 1995 Stock Option Plan for Non-Employee Directors;
- (4) Three Stockholder proposals shown and discussed in the accompanying proxy statement;
- (5) Other business as may properly come before the Annual Meeting or any adjournments thereof.

By order of the Board of Directors,

Stephen D. Yslas

*Corporate Vice President, Secretary and Deputy General Counsel*

1840 Century Park East

Los Angeles, California 90067

April 6, 2007

**IMPORTANT**

**To assure your representation at the Annual Meeting, please sign, date and return the enclosed proxy card for which a return envelope is provided. No postage is required if mailed in the United States.**

**You may also vote by telephone or over the Internet. For instructions on electronic voting please see page 2 of this Proxy Statement or the proxy card.**

**PROXY STATEMENT**

**GENERAL INFORMATION**

This proxy statement is issued in connection with solicitation of the enclosed proxy by the Board of Directors (the Board) of Northrop Grumman Corporation (the Company or Northrop Grumman) for use at the Company's 2007 Annual Meeting of Stockholders (the Annual Meeting). The Company's principal office is located at 1840 Century Park East, Los Angeles, California, 90067. This proxy material will be sent to stockholders beginning approximately April 6, 2007.

**Outstanding Securities**

On March 20, 2007 there were 344,512,723 shares of the Company's common stock, par value \$1.00 per share (Common Stock), outstanding. Holders of record at the close of business on that date are entitled to vote at the Annual Meeting. Each share is entitled to one vote.

**Voting at the Meeting or by Proxy**

Shares represented by a properly executed proxy in the accompanying form will be voted at the meeting in accordance with the stockholder's instructions. If no instructions are given, the shares will be voted according to the Board of Directors' recommendations. Therefore, if no instructions are given, the persons named on the card will vote FOR Proposal One to elect the ten director nominees listed under Election of Directors, FOR Proposal Two to ratify the appointment of Deloitte & Touche LLP as auditors of the Company for the year ending December 31, 2007, FOR Proposal Three to amend the 1995 Stock Option Plan for Non-Employee Directors, AGAINST Proposal Four, the stockholder proposal concerning foreign military sales, AGAINST Proposal Five, the stockholder proposal regarding votes on executive compensation, and AGAINST Proposal Six, the stockholder proposal regarding separation of the Chairman and CEO positions. If shares are held on an individual's behalf under any of the Company Savings Plans, the proxy serves to provide confidential instructions to the plan Trustee or Voting Manager who then votes the shares. In addition, the instructions given by plan participants who return their proxies will serve as instructions to the Trustee or Voting Manager with respect to shares held on behalf of those participants from whom no proxies are received. Under these instructions, the applicable Trustee or Voting Manager will vote the respective plan shares in the same proportion as shares held under the plan for which voting directions have been received, unless contrary to ERISA. Participants are treated as named fiduciaries under ERISA when directing the Trustee or Voting Manager on the voting of shares.

A stockholder who executes a proxy/voting instruction 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 stockholder attending the meeting in person may revoke the proxy/voting instruction by giving notice of revocation to an inspector of election at the meeting or voting at the meeting. If any other matters are properly brought before the meeting, the enclosed proxy/voting instruction card gives discretionary authority to the persons named on the card to vote the shares in their best judgment.

With respect to the election of directors, stockholders may vote for, against, or abstain in regards to each nominee. Directors receiving the majority of votes cast (number of shares voted for a director must exceed the number of votes cast against that director) will be elected as a director, provided that if the number of nominees exceeds the number of directors to be elected (a situation we do not anticipate), the directors shall be elected by a plurality. With respect to the other proposals, stockholders may vote in favor of the proposal, or against the proposal, or abstain from voting.

Brokers who hold shares of Common Stock for the accounts of their clients may vote such shares either as directed by their clients or in their own discretion if permitted by the stock exchange or other organization of which they are members. Members of the New York Stock Exchange (NYSE) are permitted to vote their clients' proxies in their own discretion as to the election of directors if the clients have not furnished voting

instructions within ten days of the meeting. Certain proposals other than the election of directors are non-discretionary and brokers who have received no 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 missing votes are referred to as broker non-votes. There are no broker non-votes on the election of directors (Proposal One). Neither broker non-votes nor abstentions will have an effect on the ratification of auditors (Proposal Two), the proposed amendment to the 1995 Stock Option Plan for Non-Employee Directors (Proposal Three), or any of the stockholder proposals (Proposals Four, Five and Six).

The presence in person or by proxy of stockholders entitled to cast at least a majority of the votes that all stockholders are entitled to cast shall constitute a quorum at the Annual Meeting. Both abstentions and broker non-votes will be counted as present for purposes of determining the presence of a quorum.

### Voting by Telephone or the Internet

Registered stockholders and participants in the Company Savings Plans may grant a proxy for their shares over the telephone or on the Internet. The law of Delaware, under which the Company is incorporated, specifically permits electronically transmitted proxies, provided that each such proxy contains or is submitted with information from which the inspectors of election can determine that such proxy was authorized by the stockholder. The procedures available to registered stockholders to permit them to grant proxies for voting at the Annual Meeting are designed to authenticate each stockholder, to allow stockholders to vote their shares, and to confirm that their instructions have been properly recorded.

Registered stockholders and plan participants may go to [www.computershare.com/expressvote](http://www.computershare.com/expressvote) to grant a proxy on the Internet. After following the instructions given to authenticate themselves, the voter will be asked to complete an electronic proxy card. The votes will be generated on the computer screen, and the voter will be prompted to submit or revise them as desired. Any registered stockholder or plan participant using a touch-tone telephone may also grant a proxy by calling 800-652-VOTE (800-652-8683) (toll-free) and following the recorded instructions.

Most beneficial owners whose stock is held in street name receive voting instruction forms from their banks, brokers or other agents, rather than the Company's proxy/voting instruction card. Beneficial owners may also be able to grant a proxy by telephone or the Internet. They should follow the instructions on the form they receive from their bank, broker, or other agent.

The method used to grant a proxy will not limit a stockholder's right to attend or vote at the Annual Meeting.

## VOTING SECURITIES

### Stock Ownership of Certain Beneficial Owners

On December 31, 2006, there were 345,921,809 shares of the Company's Common Stock outstanding. The following entities beneficially owned, to the Company's knowledge, more than five percent of the outstanding Common Stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
State Street Bank and Trust Company 225 Franklin Street, Boston, MA 02110	33,304,175 shares(a)	9.6%
Capital Research and Management Company 333 South Hope Street, Los Angeles, CA 90071	32,365,940 shares(b)	9.4%
Barclay's Global Investors, NA 45 Fremont Street, San Francisco, CA 94105	22,208,540 shares(c)	6.4%

- (a) This information was provided by State Street Bank and Trust Company ( State Street ) in a Schedule 13G filed with the Securities and Exchange Commission ( SEC ) on February 12, 2007. According to State Street, as of December 31, 2006, State Street had sole voting power over 10,092,152 shares, shared voting power over 23,212,023 shares and shared dispositive power over 33,304,175 shares. This total includes [ ] 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 acts as a trustee.
- (b) This information was provided by Capital Research and Management Company ( Capital Research ) in a Schedule 13G filed with the SEC on February 12, 2007. According to Capital Research, as of December 31, 2006, Capital Research had sole dispositive power over 32,365,940 shares and sole voting power over 2,732,700 shares.
- (c) This information was provided by Barclays Global Investors, NA ( Barclays ) in a Schedule 13G filed with the SEC on January 23, 2007. According to Barclays, as of December 31, 2006, Barclays had sole voting power over 19,135,079 shares and sole dispositive power over 22,208,540 shares.

#### Stock Ownership of Officers and Directors

The following table shows beneficial ownership (as defined by applicable rules for proxy statement reporting purposes) of the Company's Common Stock as of March 20, 2007 (the Annual Meeting record date) by each director and nominee, by the Chief Executive Officer, the Chief Financial Officer, and the other three most highly compensated executive officers as of December 31, 2006 (collectively, the Named Executive Officers) and all directors and executive officers as a group. Together these individuals own less than 1% of the 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 directors or executive officers of the Company.

	Shares of Common Stock		Options Exercisable
	Beneficially Owned	Share Equivalents(1)	Within 60 Days
<b>Directors</b>			
John T. Chain, Jr.	7,714	4,346	27,000
Lewis W. Coleman	5,884	8,182	15,000
Victor H. Fazio	3,419	8,744	9,000
Donald E. Felsing(2)	0	[0]	0
Stephen E. Frank	1,000	2,090	0
Phillip Frost	53,352(3)	4,346	24,000
Charles R. Larson	3,919(4)	3,093	9,000
Richard B. Myers	0	1,336	0
Philip A. Odeen	9,325(5)	2,719	66,140
Aulana L. Peters	11,805	4,440	21,000
Kevin W. Sharer	2,995	6,556	6,000
<b>Named Executive Officers</b>			
Ronald D. Sugar(6)	273,163(7)	0	641,250
Wesley G. Bush	58,473(8)	4,219	153,500
Scott J. Seymour	27,293	1,125	82,500
James R. O'Neill	12,414	0	32,500
W. Burks Terry	68,429	3,568	158,596
<b>Directors and Executive Officers as a Group (28 persons)</b>	<b>731,239</b>	<b>66,124(9)</b>	<b>1,842,801</b>

- (1) Share equivalents for directors represent non-voting deferred stock units acquired under the 1993 Stock Plan for Non-Employee Directors ( 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 will be paid out upon termination



of the director's service on the Board of Directors. The Named Executive Officers hold share equivalents with pass-through voting rights in the Northrop Grumman Savings Plan.

- (2) Mr. Felsing was elected to the Board of Directors on February 20, 2007.
- (3) 41,922 shares are held in the Frost Gamma Investments Trust of which Dr. Frost is trustee.
- (4) 1,236 shares are held by Admiral Larson's spouse in The Sarah E. Larson Revocable Trust of which Mrs. Larson is a trustee.
- (5) 4,286 shares are held in the Odeen Charitable Retirement Unitary Trust of which Mr. Odeen is trustee.
- (6) Dr. Sugar is also Chairman of the Board.
- (7) 190,288 shares are held in the R. D. Sugar Revocable Trust of which Dr. Sugar is trustee.
- (8) The shares are held in the W.G. and N.F. Bush Family Trust of which Mr. Bush and his wife are trustees.
- (9) 4,802 shares are held by the spouse of one executive officer.

**PROPOSAL ONE: ELECTION OF DIRECTORS**

At the 2005 Annual Meeting, the stockholders approved an amendment to the Company's Restated Certificate of Incorporation to provide for the annual election of directors.

Beginning with the 2006 Annual Meeting of Stockholders, the terms of directors either elected to the Board after the 2005 Annual Meeting or serving in Class III of the Board expired, and those directors were elected for a one-year term, expiring at this 2007 Annual Meeting. At this 2007 Annual Meeting such directors' terms, as will the terms of the directors elected after the 2006 Annual Meeting and directors serving in Class I of the Board will expire, and their successors will be elected for a term expiring at the 2008 Annual Meeting. At the 2008 Annual Meeting of Stockholders the classification of the Board will terminate and all directors will be elected for a term expiring at the next annual meeting or when their successors are elected and qualified.

Unless instructed otherwise, the persons named in the accompanying proxy will vote the shares represented by such proxy for the election of the ten Director Nominees listed in the table below. Each of the ten Director Nominees has consented to serve, and the Board does not know of any reason why any of them would be unable to serve. If a nominee becomes unavailable or unable to serve before the Annual Meeting (for example, due to serious illness), the Board can either reduce its size or designate a substitute nominee. If any nominee becomes unavailable for election to the Board of Directors, an event which is not anticipated, the persons named as proxies have full discretion and authority to vote or refrain from voting for any other nominee in accordance with their judgment.

The following information, furnished with respect to each of the ten nominees for election, is obtained from the Company's records or from information furnished directly by the individual to the Company. All the nominees are presently serving on the Board of Directors. All the director nominees, with the exception of Mr. Felsing, are standing for re-election by the stockholders. Pursuant to the Company's mandatory retirement policy for directors, General Chain will retire at the 2007 Annual Meeting.

Mr. Felsing is standing for election by the stockholders for the first time. The Nominating and Corporate Governance Committee engaged an independent search firm to assist the Committee in identifying and evaluating additional candidates for the Board. The search firm evaluated a number of possible candidates and presented them to the Nominating and Corporate Governance Committee. One of these candidates was Mr. Felsing, who had initially been brought to the attention of the Committee by Dr. Sugar. Based on the Nominating and Corporate Governance Committee's evaluation of the candidate and its recommendation to the Board, the Board elected Mr. Felsing in February 2007. The search firm received a fee for its services.

**Nominees for Director**

**LEWIS W. COLEMAN, 65.**

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

*Director since 2001*

Mr. Lewis W. Coleman has been the President of DreamWorks Animation since December 2005 and Chief Financial Officer since March 2007. Previously he was the President of the Gordon and Betty Moore Foundation from its founding in November 2000 to December 2004, and currently serves as one of the Foundation's trustees. 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 spent ten years at the Bank of America and Bank of

America Corporation where he was successively the Senior Credit Officer in The World Banking Group, Head of Global Capital Markets, Head of the World Banking Group, and Vice Chairman of the Board and Chief Financial Officer. He 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 currently serves as a director of DreamWorks Animation. He also serves on several private company and civic boards.

**VICTOR H. FAZIO, 64.**

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

*Director since 2000*

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 1989-1998 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 American Political Science Association, the Energy Future Coalition, the Campaign Finance Institute, the Center for Responsible Federal Budget and California Institute, and the U.S. Capitol Historical Society. Mr. Fazio serves as a member of the Board of Governors of the American Stock Exchange.

**DONALD E. FELSINGER, 58.**

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

*Director since 2007*

Mr. Donald E. Felsinger is chairman of the board of directors and chief executive officer of Sempra Energy, a position he has held since February 1, 2006. Beginning in January 2005, Mr. Felsinger was president and chief operating officer of Sempra Energy 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 is a member of The Conference Board and the California Business Roundtable.

**STEPHEN E. FRANK, 65.**

*Former Chairman, President and Chief Executive Officer, Southern California Edison, an electric utility company.*

*Director since 2005*

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, Edison International. Prior to joining Southern California Edison in 1995, Mr. Frank was president and chief operating officer of Florida Power and Light Company as well as a director of FPL Group, the 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. He earned a bachelor's degree from Dartmouth College and an MBA in finance from the University of Michigan. He also completed the Advanced Management Program at Harvard Business School. Mr. Frank serves on the board of directors of Washington Mutual, Inc., Puget Energy, Inc., Intermecc, Inc., and AEGIS Insurance Services Limited. He also serves as a board member of the Los Angeles Philharmonic Association.

**CHARLES R. LARSON, 70.**

*Admiral, United States Navy (Ret.).*

*Director since 2002*

Admiral Charles R. Larson has served as a consultant on defense, foreign policy and education issues to government and industry since retiring from the United States Navy in 1998. He served as commander in the Pacific from 1991 to 1994, where he was responsible for 350,000 personnel and the readiness of all U.S. forces in the theater. He was the first naval officer selected to be a White House Fellow and also served as Naval Aide to the President of the United States. He was Superintendent of the U.S. Naval Academy, first from 1983 to 1986, and again from 1994 to 1998. During his naval career as a qualified nuclear engineer, he had several years experience in naval and commercial shipyards, including submarine construction and reactor defueling. His decorations include the Defense Distinguished Service Medal and seven Navy Distinguished Service Medals. Admiral Larson is a director of Esterline Technologies Corporation, Edge Technologies, Inc. and The Atlantic Council. He is also Chairman of the Board of the U.S. Naval Academy Foundation, Chairman of Via Global LLC, and a trustee of the Anne Arundel Health Systems, Inc.

**RICHARD B. MYERS, 65.**

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

*Director since 2006*

General Richard B. Myers retired from his position as the fifteenth Chairman of the Joint Chiefs of Staff on September 30, 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 for 19 months. As the Vice Chairman from March 2000 to September 2001, 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, and Aon Corp. He is Foundation Professor of Military History and Leadership at Kansas State University and holds the Colin Powell Chair of Character, Leadership and Ethics at National Defense University.

**PHILIP A. ODEEN, 71.**

*Chairman of the Board, AVAYA, a telecommunications company.*

*Director since 2003*

Mr. Philip A. Odeen was named Chairman of AVAYA in October 2006. He was elected Chairman and Acting Chief Executive Officer of the Reynolds and Reynolds Company on July 7, 2004 and on February 1, 2005 became non-executive Chairman serving in that role until October 2006. He was also named Chief Executive Officer of QinetiQ North America in October 2005 serving until June 2006. Previously, he had served as non-employee Chairman and a director of TRW Inc. from February 2002 until December 2002. From 2000 to 2002, he was Executive Vice President, Washington Operations of TRW and from 1998 to 2000 he was Executive Vice President and General Manager, TRW Systems & Information Technology. Mr. Odeen joined TRW in 1997 when it acquired BDM International, Inc. where he had served as President, Chief Executive Officer and director from 1992 to 1997. Previously, Mr. Odeen was Vice Chairman, Management Consulting Services at Coopers & Lybrand after serving 13 years as managing partner of the firm's public sector practice. He has served in senior positions with the Office of the Secretary of Defense and the National Security Council staff and was principal Deputy Assistant Secretary of Defense (Systems Analysis). Mr. Odeen has chaired the National Defense Panel and was a member and former vice chairman of the Defense Science Board and is a member of the Chief of Naval Operations Executive Panel. He is a director of Avaya Inc., Convergys Corp., and the AES Corporation.

**AULANA L. PETERS, 65.**

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

*Director since 1992*

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 December 2000. From 1984 to 1988, she served as a Commissioner of the Securities and Exchange Commission. From January 2001 to April 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 and the International Public Interest Oversight Board. Ms. Peters is a director of 3M Company, Merrill Lynch & Co., Inc. and Deere & Company.

**KEVIN W. SHARER, 58.**

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

*Director since 2003*

Mr. Kevin W. Sharer has served as Chairman of the Board of Amgen since December 2002 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 Business Council. Mr. Sharer also serves on the board of directors of 3M Corporation.

**RONALD D. SUGAR, 58.**

*Chairman of the Board and Chief Executive Officer, Northrop Grumman Corporation*

*Director since 2001*

Dr. Ronald D. Sugar was elected Chairman of the Board of Northrop Grumman effective October 2003. He was named the Chief Executive Officer in April 2003, after having served as President and Chief Operating Officer since September 2001. He joined Northrop Grumman in 2001 having previously served as President, Chief Operating Officer and director of Litton Industries, Inc., and earlier as an executive of TRW Inc. He is a member of the National Academy of Engineering, a Governor of the Aerospace Industries Association, and is a trustee of the Los Angeles Philharmonic Association, the University of Southern California, and the Boys and Girls Clubs of America. He serves as a director of Chevron Corporation.

**Vote Required**

Each director must receive the majority of the votes cast (number of shares voted for a director must exceed the number of votes cast against that director) in order to be elected.

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

**Continuing Director Class II**

**PHILLIP FROST, 70.**

*Vice Chairman of the Board, Teva Pharmaceutical Industries, Ltd. a pharmaceutical company.*

*Director since 1996*

Dr. Phillip Frost was named Vice Chairman of the Board of Teva Pharmaceutical Industries, Ltd. ( Teva ) in January 2006 when Teva acquired IVAX Corporation. Dr. Frost had served as Chairman of the Board of Directors and Chief Executive Officer of IVAX Corporation since 1987. He was Chairman of the Department of Dermatology at Mt. Sinai Medical Center of Greater Miami, Miami Beach, Florida from 1972 to 1990. Dr. Frost was Chairman of the Board of Directors of Key Pharmaceuticals, Inc. from 1972 to 1986. He is Trustee of the University of Miami, Trustee of the Scripps Research Institute, a Regent of the Smithsonian Institute, and is a Vice Chairman of the Board of Governors of the American Stock Exchange. Dr. Frost is Chairman of Ladenburg Thalmann & Co. Inc. and a director of Continucare Corporation, TEVA, Castle Brands, Cellular Technical Services, and Protalix Bio Therapeutics, Inc.

**Continuing Director Term Expires May 16, 2007**

**JOHN T. CHAIN, JR., 72.**

*General, United States Air Force (Ret.) and Chairman of the Board, Thomas Group, a management consulting company.*

*Director since 1991*

General John T. Chain, Jr. has been Chairman of Thomas Group, Inc. since May 1998 and has been a member of the Board of Directors of Thomas Group since May 1995. He also served as the President of



Quarterdeck Equity Partners, Inc. from December 1996 to December 2002. He served as Special Assistant to the Chairman of Burlington Northern Santa Fe Corporation from November 1995 to March 1996, and as an Executive Vice President of Burlington Northern from 1991 to 1995. During his military career, General Chain's commands included military assistant to the Secretary of the Air Force, Director of Politico-Military Affairs, Department of State and Chief of Staff of Supreme Headquarters Allied Powers Europe. After serving as Commander in Chief, Strategic Air Command, he retired from the Air Force in February 1991. General Chain serves as a director of Reynolds American, Inc., Kemper Insurance Company and ConAgra Foods, Inc.

### COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has Audit, Compensation and Management Development, Nominating and Corporate Governance, Finance and Compliance, Public Issues and Policy Committees. The membership of these committees is usually determined at the organizational meeting of the Board held in conjunction with the Annual Meeting. Each of the Audit, Compensation and Management Development, Nominating and Corporate Governance and Compliance, Public Issues and Policy Committees is composed entirely of independent directors under Securities and Exchange Commission ( SEC ) and New York Stock Exchange ( NYSE ) rules, as applicable. The membership of each committee is as follows, with the chairperson listed first:

Compensation and Management		Nominating and Corporate		Compliance, Public Issues and Policy
Audit	Development	Governance	Finance	
Stephen E. Frank	John T. Chain, Jr.	Victor H. Fazio	Lewis W. Coleman	Aulana L. Peters
Lewis W. Coleman	Lewis W. Coleman	John T. Chain, Jr.	John T. Chain, Jr.	Victor H. Fazio
Victor H. Fazio	Donald E. Felsing*	Phillip Frost	Phillip Frost	Phillip Frost
Donald E. Felsing*	Stephen E. Frank	Richard B. Myers	Charles R. Larson	Charles R. Larson
Richard B. Myers	Phillip Frost	Aulana L. Peters	Philip A. Odeen	Philip A. Odeen
Aulana L. Peters	Richard B. Myers		Kevin W. Sharer	

\* as of February 20, 2007

#### Audit Committee

The Audit Committee meets periodically with management and with both the Company's independent auditors and the Company's internal auditor to review audit results and the adequacy of and compliance with the Company's system of internal controls. In addition, the Audit Committee appoints or discharges the Company's independent auditors, and reviews and approves auditing services and non-prohibited non-audit services to be provided by the independent auditors to evaluate the impact of undertaking such added services on the independence of the auditors. The responsibilities of the Audit Committee are more fully described in the Audit Committee Report on page [ ] and the Audit Committee Charter which can be found on the Company's website ([www.northropgrumman.com](http://www.northropgrumman.com)) and is available in print to any stockholder who requests it. The Board of Directors has determined that all members of the Audit Committee are financially literate. Further, the Board has determined that Mr. Coleman, Mr. Felsing, Mr. Frank, and Ms. Peters possess accounting or related financial management expertise within the meaning of the NYSE listing standards and that each qualifies as an audit committee financial expert as defined under applicable SEC rules. Ms. Peters serves on three other public companies' audit committees. The Board of Directors has determined that service on three other audit committees does not impair Ms. Peters' ability to serve effectively on the Company's Audit Committee and that her expertise and experience is invaluable to the Audit Committee. The Audit Committee held nine meetings in 2006.



### **Compensation and Management Development Committee**

The Compensation and Management Development Committee of the Board of Directors ( the Compensation Committee ) administers the Company s executive compensation and benefit programs and oversees the management development and succession process. The Compensation Committee oversees all compensation and benefit programs and actions that affect the Named Executive Officers as well as all other Elected Officers of the Company. The Compensation Committee also provides strategic direction for the Company s total rewards compensation and benefits structure and reviews CEO and senior executive succession plans.

The Compensation Committee recognizes the importance of a continuous review of the programs, policies and procedures to capitalize on industry best practices . Every year the Committee performs a self-evaluation to identify methodologies for improving future programs and processes.

Actions the Compensation Committee has taken over the past 12 months include:

Continued its practice of holding executive sessions (without Company management present) at every Committee meeting

Engaged an independent compensation consultant, Frederic W. Cook & Co., Inc., to advise the Committee directly on executive compensation and benefits issues

Established annual reviews of detailed compensation and benefit tally sheets for all Elected Officers

Revised the CEO annual incentive structure to further enhance a direct link between shareholder value and the CEO s annual incentive based on the Company s financial performance compared to its peers

Established new goal criteria in both the annual and long-term incentive programs that reinforce the link between incentives and shareholder value

Revised the perquisite program for all Company officers including the Named Executive Officers

Revised formal communication process for evaluation of stock ownership guidelines for elected and appointed officers

Continued oversight of the management development process

The Compensation Committee s Charter reflects the responsibilities of the Committee and its oversight of the various executive compensation programs. The Compensation Committee and the Board review this Charter on an annual basis and modify it as needed. The Charter can be found on the Company s website ([www.northropgrumman.com](http://www.northropgrumman.com)) and is available in print to any stockholder who requests it. The Compensation Committee s regularly scheduled meetings typically last several hours, and all members actively engage in the review of matters presented. The Compensation Committee held six meetings in 2006.

### **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee employs a third party search firm to assist it in identifying candidates for director. The Committee also receives suggestions for director candidates from Board Members. The Committee then reviews candidates to serve as directors, consistent with criteria approved by the Board, and recommends to the Board of Directors nominees for election. The activities and associations of candidates are reviewed for any legal impediment, conflict of interest or other consideration that might prevent service on the Board of Directors. Each candidate must be willing to submit to the background check necessary for obtaining a top secret clearance that is a requirement for continued Board membership. In evaluating candidates, the Committee also considers the integrity and reputation of the individual as well as the particular skills and experience most beneficial to the Board at that time. In making its selection, the Committee bears in mind that the

foremost responsibility of a Northrop Grumman director is to represent the interests of the stockholders as a whole.

The Committee will consider nominees recommended by stockholders if such nominations have been submitted in writing, accompanied both by a description of the proposed nominee's qualifications and an indication of the consent of the proposed nominee and relevant biographical information. The recommendation should be addressed to the Nominating and Corporate Governance Committee in care of the Secretary of the Company. The Company will evaluate candidates recommended by stockholders in the same manner as candidates identified by the Committee. The Company has not had any director candidates put forward by a stockholder or group of stockholders who beneficially owned more than five percent of the Company's stock for at least one year.

The Committee reviews and recommends to the Board the compensation of directors. During 2006, Hewitt Associates, an outside compensation consultant, assisted the Company by providing market data on director pay at other companies.

The Committee also reviews and recommends action to the Board of Directors on matters concerning transactions with related persons, and matters involving corporate governance in general, oversees the evaluation of the Board and makes recommendations to the Board of Directors for action. The responsibilities of the Nominating and Corporate Governance Committee are more fully described in the Committee Charter which can be found on the Company's website ([www.northropgrumman.com](http://www.northropgrumman.com)) and is available in print to any stockholder who requests it. The Nominating and Corporate Governance Committee held five meetings in 2006.

#### **Finance Committee**

The Finance Committee considers and makes recommendations for final action by the Board on capital structure and capital allocation, including acquisitions, mergers or divestitures of an unusual or material nature. As part of its capital structure responsibilities, the Finance Committee reviews and makes recommendations concerning proposed dividend actions and issuance or redemption of debt or equity securities. In addition, the Finance Committee reviews the investment performance of the employee benefit plans and capital asset requirements. The Finance Committee held five meetings in 2006.

#### **Compliance, Public Issues and Policy Committee**

The Committee reviews and monitors the Company's policies and programs for ethics and business conduct, equal opportunity and diversity plans and programs, and environmental, health and safety policies and procedures. The Compliance, Public Issues and Policy Committee reviews and monitors the Northrop Grumman Employees Political Action Committee and makes policy and budget recommendations to the Board on proposed charitable contributions and aid to higher education. This Committee also reviews and approves the Company's policy for engaging the services of consultants and commission agents. The Compliance, Public Issues and Policy Committee held four meetings in 2006.

#### **Board and Committee Meetings and Annual Meeting Attendance**

During 2006, the Board held 13 meetings and the committees described above held 27 meetings. Each director attended at least 90% 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 Stockholders except where the failure to attend is due to unavoidable circumstances. All members of the Board of Directors attended the 2006 Annual Meeting.

**DIRECTOR COMPENSATION****2006 Director Compensation**

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)</b>	<b>Non-Equity Incentive Plan Compensation (\$)</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
John T. Chain	210,000	0	0	0	0	0	210,000
Lewis W. Coleman	215,000	0	0	0	0	0	215,000
Vic Fazio	213,750	0	0	0	0	0	213,750
Stephen E. Frank	217,500	0	0	0	0	0	217,500
Phillip Frost	202,500	0	0	0	0	0	202,500
Charles R. Larson	205,000	0	0	0	0	0	205,000
Richard B. Myers	174,167	0	0	0	0	0	174,167
Philip A. Odeen	200,000	0	0	0	0	0	200,000
Aulana L. Peters	215,000	0	0	0	0	0	215,000
Kevin Sharer	200,000	0	0	0	0	0	200,000
John B. Slaughter*	110,000	0	0	0	0	0	110,000

\* Retired effective May 17, 2006.

Non-Employee directors earn an annual retainer of \$200,000, 50% of which must be deferred into a stock unit account, as described more fully below. The other retainers are as follows:

<b>Type of Retainer</b>	<b>Amount</b>
Audit Committee Retainer	\$ 10,000
Audit Committee Chair Retainer	\$ 20,000
Compensation Chair Retainer	\$ 10,000
Other Committee Chair Retainer	\$ 5,000

Directors are reimbursed for all reasonable expenses in attending the Board and Committee meetings. Directors who are employees of the Company do not receive any compensation for their service as directors.

Pursuant to the 1993 Stock Plan for Non-Employee Directors (the 1993 Directors Plan ), 50% of the retainer earned by each director is paid in shares of Common Stock. In addition, each director may defer payment of all or a portion of his or her remaining board retainer fee. The deferred compensation is placed in a stock unit account until the conclusion of the director's board service and 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 shares of Common Stock which are also paid out upon termination of board service.

The 1995 Stock Option Plan for Non-Employee Directors (the 1995 Directors Plan ), as amended, provided for the annual grant of options to each non-employee director to purchase shares of Common Stock with an exercise price equal to the fair market value of the Common Stock on the grant date. Effective June 1, 2005, no new grants are issued pursuant to this plan. The options currently outstanding are all exercisable and have a term of ten years from the date of grant. If the individual ceases to serve as a director, the options continue to be exercisable for the lesser of five years or the expiration of the original term of the options. If termination is for cause, the options terminate when the director ceases to serve.

Under the Northrop Grumman Non-Employee Directors Equity Participation Plan (the Equity Plan ) outside 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 of the Common Stock. Effective May 2005, no new annual accruals are credited to the Equity Plan and no new participants will be added.

## **CORPORATE GOVERNANCE**

### **TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS**

#### **Transactions with Related Persons**

Mr. Odeen was the CEO of QinetiQ North America from August 2005 until June 2006. In 2006 the Company's Mission Systems Sector had three purchase orders with QinetiQ North America totaling \$813,100 for among other things, satellite identification systems with installation, training, and maintenance. Mr. Odeen was not involved in the awarding or performance of this contract, and the amount paid to QinetiQ North America had no effect on his compensation. The Board does not consider this to be a material relationship with the Company that would preclude a finding of independence under NYSE rules.

The Company employs more than 125,000 people in all 50 states and 25 countries and actively seeks to hire the most qualified candidates and thus does not prohibit the hiring of family members. The employment of one family member of a current executive officer met the threshold for disclosure for 2006. James L. Sanford's wife, Jean Holden, Business Manager for Advanced Programs at the Integrated Systems Sector, Western Region, received \$163,118 in salary and a \$66,900 bonus awarded pursuant to the Performance Achievement Plan. Her current annual salary is \$171,014. Mr. Sanford does not have any direct or material control over the salary or employment of his wife.

The compensation of this family member was established in accordance with the Company's employment and compensation practices applicable to employees with equivalent qualifications, experience and responsibilities.

#### **Review, Approval or Ratification of Transactions with Related Persons**

The Board of Directors has approved a written policy for the review, approval or ratification of related person transactions. The Nominating and Corporate Governance Committee is responsible for reviewing these transactions and may take into consideration, among other things, the materiality of proposed transaction, the actual or perceived conflict of interest between the Company and the related person, the Company's Corporate governance principles and Code of Ethics and the best interests of the Company and its stockholders. After review, the Nominating and Corporate Governance Committee will recommend to the Board what action to be taken, if any, by the Board of Directors.

### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

No member of the Compensation and Management Development Committee had a relationship with any other company that requires disclosure as a Compensation Committee interlock as that term is defined by the SEC.

### **DIRECTOR INDEPENDENCE**

The Board of Directors is currently composed of twelve directors and the Board has determined that eleven (all but the CEO) meet the NYSE definition of independence. The Board annually determines the independence of directors based on a review by the directors and the Nominating and Corporate Governance Committee. No director is considered independent unless the Board has determined that he or she has no material relationship

with the Company, either directly or as a partner, shareholder, or officer of an organization that has a material relationship with the Company. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships, among others. To evaluate the materiality of any such relationship, the Board has adopted categorical independence standards consistent with the NYSE listing guidelines. The standards relied upon by the Board in affirmatively determining whether a director is independent are comprised, in part, of those objective standards set forth in the NYSE rules, which generally provide that

A director who is an employee, or whose immediate family member (defined as a spouse, parent, child, sibling, father- and mother-in-law, son- and daughter-in-law, brother- and sister-in-law and anyone, other than a domestic employee, sharing the director's home) is an executive officer of the Company, would not be independent until three years after the end of such relationship.

A director who receives, or whose immediate family member receives as an executive officer of the Company, more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service) would not be independent until three years after ceasing to receive such amount.

A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company would not be independent until three years after the end of the affiliation or the employment or auditing relationship.

A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on the other company's compensation committee would not be independent until three years after the end of such service or employment relationship.

A director who is an executive officer or an employee, or whose immediate family member is an executive officer of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues, would not be independent until three years after falling below such threshold.

In addition to these NYSE standards, the Board adopted the following categorical standards:

A director may be deemed not to have a material relationship with the 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 the Company exceeding the greater of \$1 million, or 2% of the charitable organization's annual gross revenues, where the gifts were not normal matching charitable gifts, did not go through normal corporate charitable donation approval processes or were made on behalf of a Company director;

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;

Has not within the prior three years owned, and has no immediate family member who owned, either directly or indirectly as a partner, stockholder 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 interest in, the Company.

In February 2007, the directors and the Nominating and Corporate Governance Committee reviewed directors' responses to a questionnaire asking about the relationships with the Company (and those of their immediate family members) and other potential conflicts of interest, as well as material provided by management related to transactions, relationships, or arrangements between the Company and the directors or parties related to





the directors. The Nominating and Corporate Governance Committee determined that the eleven non-employee directors listed below are independent, and that the members of the Audit, Compensation and Management Development, and the Nominating and Corporate Governance Committees also meet the independence tests of the NYSE. The Nominating and Corporate Governance Committee reported its conclusion to the Board, and the Board then considered each director individually and determined that none of the eleven directors listed below has had during the last three years (i) any of the relationships listed above or (ii) any other material relationship with the Company that would compromise his or her independence. The table below includes a description of categories or types of transactions, relationships, or arrangements considered by the Board (in addition to those listed above) in reaching its determination that the directors are independent.

Name	Independent	Transactions/Relationships/Arrangements
John T. Chain, Jr.	Yes	None
Lewis W. Coleman	Yes	None
Victor H. Fazio	Yes	None
Donald E. Felsing	Yes	Company membership with The Conference Board immaterial
Stephen E. Frank	Yes	Company contributions to the Los Angeles Philharmonic immaterial
Phillip Frost	Yes	None
Charles R. Larson	Yes	Son-in-law employed by Company in non-executive position immaterial
Richard B. Myers	Yes	Company contribution to U.S. Naval Academy Foundation immaterial Company contributions to Air Force Association and USO immaterial
Philip A. Odeen	Yes	Purchase from QinetiQ North America immaterial
Aulana L. Peters	Yes	None
Kevin W. Sharer	Yes	Purchase from Amgen all pursuant to competitive bid immaterial Company contribution to U.S. Naval Academy immaterial

Daughter employed by Company in non-executive position immaterial

In the course of determining whether or not a transaction relationship was material, the Board considered the following:

In circumstances where the director was an executive officer of a company with purchases from or sales to Northrop Grumman, the amount involved in fiscal year 2006 was less than one percent of the annual revenue of that company.

In circumstances where the director served as a director or trustee of a charitable organization, the annual contribution by Northrop Grumman to each organization in fiscal year 2006 did not exceed \$100,000 and, were in all cases below 2% of the organization's annual gross revenues.

In circumstances where a family member of a director was employed by the Company, the employee was not an executive officer, and the compensation paid in fiscal year 2006 was less than \$120,000 and therefore below the threshold required for disclosure by the SEC.

## GOVERNANCE OF THE COMPANY

### PRINCIPLES OF CORPORATE GOVERNANCE

The primary responsibility of the Board of Directors is to foster the long-term success of Northrop Grumman, consistent with representing the interests of the shareholders. In accordance with this philosophy, the Board of Directors has adopted Principles of Corporate Governance that reinforce the Company's values by promoting responsible business practices and good corporate citizenship. The Board of Directors reviews these

principles on an annual basis to determine whether they can be improved upon or if they should be modified in response to changed circumstances. Over the years, the Board of Directors has modified these principles, and will continue to do so if the directors believe that changes to these principles will advance the best interests of the shareholders.

#### **Board and Committee Composition of Independent Directors**

It is the objective of the Board of Directors that at least seventy five percent (75%) of the members shall be "Independent Directors", with each meeting the independence requirements of the NYSE and the Company's categorical standards as discussed under Director Independence.

The following Committees are always composed of only Independent Directors:

Audit

Nominating and Corporate Governance

Compliance, Public Issues and Policy

Compensation and Management Development

The Independent Directors have designated from among them a Lead Independent Director. The role of the Lead Independent Director is to:

Preside at all meetings of the Board at which the Chairman is not present, including executive sessions of the Independent Directors

Serve as liaison between the Chairman and the Independent Directors

Advise on the quality, quantity and timeliness of the information sent to the Board

Provide the Chairman with input as to the preparation of the agendas of the Board and Committee meetings

Advise the Chairman on the appropriate schedule of Board meetings to assure that there is sufficient time for discussion of all agenda items

Have the authority to call meetings of the Independent Directors

Interview, along with the Chairman and the Chair of the Nominating and Corporate Governance Committee, all Board candidates and make recommendations to the Committee and the Board

If requested by major stockholders, ensure that he or she is available for consultation and direct communication.

The designation of a lead independent director is not intended to inhibit communication among the directors or between any of them and the Chairman. Accordingly, other directors are encouraged to continue to communicate freely among themselves and directly with the Chairman. Additionally, any director can ask for an item to be added to the agenda for any Board or Committee meeting. General Chain currently serves as

the independent lead director, and the Board has designated Mr. Coleman to assume this position upon General Chain's retirement in May 2007.

**Board and Committee Membership**

In accordance with the Company's Bylaws, if none of the Company stockholders provides the Company notice of an intention to nominate one or more candidates to compete with the Board's nominees in a director election, or if the stockholders have withdrawn all such nominations by the tenth day before the Company mails its notice of meeting to the stockholders, a nominee must receive more votes cast for than against his or her

election or reelection in order to be elected or reelected to the Board. The Board expects a director to tender his or her resignation if he or she fails to receive the required number of votes for reelection. The Board shall nominate for election as director only candidates who agree to tender, promptly following the annual meeting at which they are elected as director, resignations that will be effective upon (i) the failure to receive the required vote at any future meeting at which they face reelection and (ii) Board acceptance of such resignation. In addition, the Board shall fill director vacancies and new directorships only with candidates who agree to tender, promptly following their appointment to the Board, the same form of resignation tendered by other directors in accordance with this Principle. A resignation tendered in accordance with this paragraph must provide that it may not be withdrawn unless the Board eliminates this Principle on majority voting in director elections.

If an incumbent director fails to receive the required vote for reelection, the Nominating and Corporate Governance Committee will consider whether the Board should accept the director's resignation and will submit a recommendation for prompt consideration by the Board. The Board expects the director whose resignation is under consideration to abstain from participating in any decision regarding that resignation. The Board will also request that all directors who are not considered "Independent Directors" pursuant to these Principles abstain from participating in the decision regarding the resignation unless the Board determines that the participation of one or more of such directors is necessary under the circumstances. The Nominating and Corporate Governance Committee and the Board may consider any factors they deem relevant in deciding whether to accept a resignation, including, without limitation, any harm to the Company that may result from accepting the resignation, the underlying reasons for the vote against the director, and whether action in lieu of accepting the resignation would address the underlying reasons for such votes against the director.

The Board will decide whether to accept or reject a resignation within 90 days following certification of the election results by the inspector of elections, unless the Board determines that compelling circumstances require that the Board take additional time to consider the resignation. The Company will disclose the Board's decision (including, if applicable, the reasons for rejecting a resignation) in a periodic or current report that will be filed with the Securities and Exchange Commission within four business days of such decision.

The Board of Directors, with recommendations from the Nominating and Corporate Governance Committee, appoints the members and chair of the committees. These appointments are based on an analysis of the skills, experience and other qualities of each individual director in relation to the requirements of the particular committee. Committee membership is reviewed annually and members are rotated as appropriate.

All new directors receive an orientation, which is individually designed for each director taking into account his or her experience, background, education, and committee assignments. This orientation includes one-on-one meetings with senior management and extensive written materials on the Company and its various products and operations.

The Company has a retirement policy whereby directors will retire at the annual meeting following his or her 72nd birthday.

Directors should not serve on more than four other boards of publicly traded companies in addition to the Company's Board without the approval of the Chairman of the Nominating and Corporate Governance Committee. A director who is a full time employee of the Company may not serve on the board of more than two other public companies unless approved by the Board. Directors should advise the Chairman of the Board and the Chairman of the Nominating and Corporate Governance Committee prior to accepting an invitation to serve on another board.

When a director's principal occupation or business association changes substantially during his or her tenure as a director, that director shall tender his or her resignation for consideration by the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee will recommend to the Board the action, if any, to be taken with respect to the resignation.

### **Board Meetings and Executive Sessions**

On an annual basis, the Board of Directors holds an extended meeting to review the Company's long-term strategy for each of its businesses, as well as for the Company as a whole.

The Board holds its meetings at other Company locations on a regular basis to provide the directors with in-depth review of the business at that location, a first-hand view of the operations and an opportunity for the Board members to interact with management at the facility.

The Board, with no members of management present, meets in executive session on a regular basis. The lead independent director presides over the executive sessions. The Audit Committee meets in executive session with the independent auditors and with the general auditor regularly. The Compensation Committee also meets in executive session on a regular basis. All other committees are given the opportunity to meet without management present as they deem necessary.

The Chairman, in consultation with the lead independent director and committee chairpersons, will establish the agenda for each Board meeting. Any other member of the Board is free to suggest the addition of any other item(s). The chairpersons of the committees will coordinate committee meeting agendas with appropriate members of management. Other committee members are free to suggest additional agenda items.

### **Directors Common Stock Ownership and Compensation**

To encourage directors to have a direct and material cash investment in shares of common stock of the Company, the Board adopted stock ownership guidelines, which requires directors who are not employees to defer at least 50 percent of their annual retainer into Company stock to be placed in a stock unit account. The deferred stock is distributed to the director upon termination of his or her service on the Board.

The Nominating and Corporate Governance Committee reviews and recommends to the Board non-employee director compensation. The Committee consults with outside advisors to ensure that the form and amount are appropriate for attracting quality individuals to serve on the Board.

### **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 will also conduct performance evaluations of each individual director on a regular basis.

Senior members of management are invited to make presentations to the Board or committees to provide management insight into items being discussed by the Board or committees and to bring managers with high potential into contact with the Board. In addition, Board members have free access to all other members of management and employees of the Company.

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

Annually evaluate the CEO based on a specific set of performance objectives;

Annually provide the Compensation and Management Development Committee with an assessment of persons considered potential successors to certain management positions. The results of these reviews are reported to and discussed with the Board; and

Ensure continuity of top leadership, including CEO succession.

### **CERTAIN INDEMNIFICATION AGREEMENTS**

The Company has entered into Indemnification Agreements with each of the directors and executive officers. Under the Indemnification Agreements, the Company has agreed to hold harmless and indemnify each indemnitee generally to the full extent permitted by the Delaware General Corporation Law and against all expenses, liabilities and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) 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 the Company's 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 the Company. The indemnity does not cover liability if a court determines such indemnification is not lawful. In addition, our bylaws provide indemnification to all our officers and directors to essentially the same extent as provided in the indemnification agreements.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires Northrop Grumman's officers and directors, and persons who own more than ten percent of a registered class of Northrop Grumman's equity securities, to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC and the NYSE. The SEC requires officers, directors and greater than ten percent beneficial owners to furnish Northrop Grumman with copies of all Forms 3, 4 and 5 they file.

Northrop Grumman believes that all its officers, directors and greater than ten percent beneficial owners complied with all their applicable filing requirements during the fiscal year ended December 31, 2006. This is based on Northrop Grumman's review of copies of Forms 3, 4 and 5 it has received and of written representations from certain persons that they were not required to file a Form 5.

### **COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Interested parties may communicate with any of our directors, the Independent Directors as a group or the full Board as a group by writing to them

c/o Secretary of the Corporation

Northrop Grumman Corporation

1840 Century Park East

Los Angeles, California 90067

The Corporate Secretary will forward the communication to the director to whom it is addressed or to the Lead Independent Director if addressed to the Board of Directors.

The Sarbanes-Oxley Act of 2002 requires the Audit Committee of the Board of Directors to establish procedures to receive employees confidential or anonymous concerns regarding questionable accounting or auditing matters. Any employee with a concern about a financial accounting or auditing matter can write directly to:

Chair, Audit Committee

Northrop Grumman Board of Directors

c/o Corporate Ethics Office

1840 Century Park East

Los Angeles, CA 90067

Mail will be delivered unopened to the Chair of the Audit Committee.



**CODE OF ETHICS**

A copy of our Standards of Business Conduct, which applies to our Board of Directors, the Chief Executive Officer, Chief Financial Officer and all our employees, can be found on our website ([www.northropgrumman.com](http://www.northropgrumman.com)). A copy of the Company's Code of Ethics is available to any stockholder who requests it by writing to

*c/o* Secretary of the Corporation

Northrop Grumman Corporation

1840 Century Park East

Los Angeles, California 90067

The Company will disclose amendments to provisions of this code by posting such amendments on its website. In addition, any waivers of the Code for directors or executive officers of the Company will be disclosed in a report on Form 8-K.



### AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors (the Board), the Audit Committee of the Board assists the Board in fulfilling its oversight responsibilities by reviewing financial reports and other financial information provided by Northrop Grumman to the shareholders and the Securities and Exchange Commission (the SEC), Northrop Grumman's internal control structure, Northrop Grumman's internal and external audit process, Northrop Grumman's risk management process, and other matters relating to Northrop Grumman's accounting and financial reporting process. The Audit Committee discussed with the company's senior management and the independent auditors the process used for certifications by the company's Chief Executive Officer and Chief Financial Officer, which are required by the SEC and the Sarbanes-Oxley Act of 2002 for certain of the company's filings with the SEC.

In connection with the financial statements for Northrop Grumman as of and for the year ended December 31, 2006, the Audit Committee discussed with Northrop Grumman's Chief Executive Officer, Chief Financial Officer and Deloitte & Touche LLP (Deloitte), Northrop Grumman's independent auditors, the financial information contained in each quarterly earnings and annual earnings announcement prior to its release. The Audit Committee also reviewed the SEC Form 10-Q for each quarter of 2006 prior to filing with the SEC as well as the SEC Form 10-K for the year ended December 31, 2006 prior to filing with the SEC.

The Audit Committee met in executive session at each in-person meeting. During these sessions, the Audit Committee met privately with both Deloitte and the internal auditors, each of whom has unrestricted access to the Audit Committee.

In discharging its oversight responsibility for the audit process, the Audit Committee received a letter from Deloitte regarding the firm's independence as required under Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as amended by the Independence Standards Board. In addition, the Audit Committee discussed Deloitte's independence from Northrop Grumman and its management, and considered whether the providing of non-audit services was compatible with maintaining Deloitte's independence. The Audit Committee reviewed the internal audit function's organization, responsibilities, budget and staffing. The Audit Committee also reviewed with both the internal auditor and Deloitte their respective audit plans, audit scope and identification of audit areas of emphasis.

The Audit Committee discussed and reviewed with Deloitte the matters required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, Communications with Audit Committees and, with and without management present, discussed and reviewed the results of Deloitte's examination of the financial statements, along with the results of internal auditors examinations.

The Audit Committee conducted an assessment of its performance and discussed the results. As a part of its performance assessment, the Audit Committee reviewed its charter and, after appropriate review and discussion, reaffirmed the Audit Committee Charter on December 13, 2006. The Audit Committee also confirmed it performed all the requirements of its charter. This charter can be found on the Company's website ([www.northropgrumman.com](http://www.northropgrumman.com)) and is available in print to any shareholder who requests it.

The Audit Committee reviewed and discussed the audits of the financial statements and internal controls over financial reporting of Northrop Grumman as of and for the year ended December 31, 2006, with management and Deloitte. The Audit Committee discussed with management, the internal auditors and Deloitte the quality of Northrop Grumman's internal controls over financial reporting, and whether such controls were effective.

Management has responsibility for Northrop Grumman's financial statements and the overall reporting process, including evaluating the effectiveness of disclosure controls and procedures, and evaluating the effectiveness of internal controls over financial reporting.

Deloitte is responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on (1) management's assessment of the effectiveness of internal controls over financial reporting, and (2) the effectiveness of internal controls over financial reporting.

The independent auditors audit the annual financial statements prepared by management, express an opinion as to whether these financial statements fairly present the financial position, results of operations, and cash flows of Northrop Grumman in conformity with generally accepted accounting principles, and discuss with the Audit Committee any issues they believe should be raised.

Based upon the Audit Committee's review and discussions with management and Deloitte described in this report, the audit committee recommended to the Board of Directors that Northrop Grumman's Annual Report on Form 10-K include the audited financial statements. The Audit Committee also reappointed Deloitte to serve as independent auditors for 2007, and requested such appointment be submitted to the Stockholders for ratification at their Annual Meeting.

Each of the members of the Audit Committee is independent as defined under the listing standards of the New York Stock Exchange and the rules of the Securities and Exchange Commission.

**AUDIT COMMITTEE**

**STEPHEN E. FRANK, CHAIRMAN**

**LEWIS W. COLEMAN**

**VICTOR H. FAZIO**

**RICHARD B. MYERS**

**AULANA L. PETERS**

**EXECUTIVE COMPENSATION**

**[to be included in Definitive Proxy Statement]**

## PROPOSAL TWO: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee proposes and recommends that the stockholders ratify the Audit Committee's appointment of Deloitte & Touche LLP as the Company's independent auditors for 2007. Deloitte & Touche LLP served the Company as its independent auditors for 2006. Although ratification is not required by the Company's bylaws or otherwise, the Audit Committee is submitting the selection of Deloitte & Touche LLP to our stockholders as a matter of good corporate governance. Should the stockholders fail to ratify the appointment of Deloitte & Touche LLP, the Audit Committee will consider this in its selection of auditors for the following year. A representative from Deloitte & Touche LLP will attend the Annual Meeting, will have the opportunity to make a statement, and will be available to respond to appropriate questions.

### Fees Billed By the Independent Auditors

The following table summarizes aggregate fees billed to the Company for the years ended December 31, 2006 and 2005 by the Company's independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates:

	Fiscal Year Ended December 31,	
	2006	2005
Audit Fees(a)	\$ 16,281,000	\$ 15,886,000
Audit-Related Fees(b)	4,571,000	423,000
Tax-Related Fees(c)	2,528,500	2,235,000
All Other Fees	0	0
<b>Total Fees</b>	<b>\$ 23,380,500</b>	<b>\$ 18,544,000</b>

- (a) Audit Fees in 2006 and 2005 reflect fees of \$14,831,000 and \$14,406,000, respectively, for the consolidated financial statement audits and includes the audit of internal controls pursuant to Section 404 of the Sarbanes-Oxley Act of 2002; additionally, 2006 and 2005 audit fees include \$1,450,000 and \$1,465,000, respectively, for the foreign statutory audits. Fees for foreign statutory audits are reported in the year in which the audits are performed. For example, foreign statutory audit fees reported in 2006 relate to audits of the Company's foreign entities for the fiscal year ended 2005.
- (b) Audit-Related Fees comprise fees for services that are reasonably related to the performance of the audit or review of the Company's financial statements including the support of business acquisition and divestiture activities, independent assessment of controls related to outsourcing services, and audits of employee benefit plans. For 2006, these services included \$2,995,000 for business acquisition and divestiture activities and \$832,000 for independent assessment of controls related to outsourcing activities. Fees related to benefit plan audits which are paid by the plans are excluded.
- (c) Tax-Related Fees during 2006 and 2005 reflect fees of \$1,708,900 and \$1,980,800, respectively, for services concerning foreign income tax compliance, foreign Value Added Tax (VAT) compliance, expatriate tax services, transfer pricing analysis and software licensing fees. The remaining tax fees primarily concern other tax compliance matters.

### Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

It is the Audit Committee's policy to pre-approve all audit and permitted non-audit services provided by the independent auditors in order to assure that the provision of these services does not impair the independent auditor's independence. These services may include audit services, audit-related services, tax-related services and other services. Pre-approval may be given at any time up to a year before commencement of the specified service. Any pre-approval is detailed as to the particular service or category of services. The Audit Committee

has delegated pre-approval authority for any individual project up to a pre-determined amount to the Chairman of the Audit Committee.

The decisions of the Chairman to pre-approve a permitted service are reported to the Audit Committee at its next meeting. The independent auditors and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, as well as the fees for the services performed to date.

The Audit Committee approved all audit and non-audit services provided by Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates during 2006 and 2005 in each case before being engaged to provide those services.

**Vote Required**

If a quorum is present at the meeting, approval of this proposal requires the affirmative vote of a majority of the votes cast on the proposal.

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

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**PROPOSAL THREE: APPROVAL OF AMENDMENTS TO THE NORTHROP GRUMMAN CORPORATION 1995 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS**

**Overview**

Since June 2005 the non-employee directors have been required to defer 50% of their annual retainer into a Stock Unit Account pursuant to the 1993 Directors Plan. Since some of the directors elect to have the entire retainer paid in stock, the shares authorized by the 1993 Directors Plan are being used more quickly than previously contemplated. However, the 1995 Directors Plan has 318,000 shares available for grant of options. Since the directors no longer receive options, it is unlikely these shares will ever be used. The Company would like to be able to use the shares previously designated for option grants for payments of the stock portion of the directors' annual retainer as more fully described below.

**General**

At the Annual Meeting, stockholders will be asked to approve the following amendments to the Company's 1995 Stock Option Plan for Non-Employee Directors, as amended. (The plan, as proposed to be amended, has been renamed the Northrop Grumman Corporation 1995 Stock Plan for Directors and is referred to as the 1995 Directors Plan. ) The proposed amendments to the 1995 Directors Plan were adopted, subject to stockholder approval, by the Board of Directors on March 21, 2007.

**Types of Awards.** The proposed amendments provide that awards of restricted stock and restricted stock units, as well as stock options, may be granted to the Company's non-employee directors under the 1995 Directors Plan and that awards under the 1995 Directors Plan are granted on a discretionary basis. (Effective June 1, 2005, the Company suspended its automatic option grant program for non-employee directors under the 1995 Directors Plan.)

**Awards Granted under 1993 Directors Plan.** The proposed amendments provide that shares available for award grant purposes under the 1995 Directors Plan may also be delivered pursuant to award grants to a non-employee director under the Northrop Grumman Corporation 1993 Stock Plan for Non-Employee Directors, as amended (the 1993 Directors Plan ), as a component of his or her annual retainer.

**Change in Share-Counting Provisions.** The proposed amendments provide that shares of the Company's common stock delivered in respect of awards granted under the 1995 Directors Plan other than stock options (including shares delivered as a component of a director's annual retainer pursuant to the 1993 Directors Plan) will count against the aggregate share limit for the 1995 Directors Plan as 3.0 shares for every share actually issued in connection with the award.

Stockholders are not being asked to increase the number of shares of the Company's common stock available for award grants under the 1995 Directors Plan. The 1995 Directors Plan retains the existing share limit of 600,000 shares. As of March 20, 2007, 282,000 shares were subject to outstanding awards under the plan, and 318,000 shares remained available for award grant purposes under the plan.

The Board of Directors approved the proposed amendments to the 1995 Directors Plan based, in part, on a belief that permitting the shares remaining available under the 1995 Directors Plan to be used for discretionary grants of restricted stock and restricted stock unit awards and/or as a component of non-employee directors' retainers under the 1993 Directors Plan would give the Company greater flexibility in structuring equity award grants for its non-employee directors. The Company believes that equity awards play an important role in attracting and retaining highly qualified individuals to serve on the Board of Directors. If stockholders do not approve the 1995 Directors Plan proposal, the Company will not have the flexibility to use the shares available under the 1995 Directors Plan for these purposes.

### Summary Description of the 1995 Stock Plan for Non-Employee Directors

The principal terms of the 1995 Directors Plan are summarized below. The following summary is qualified in its entirety by the full text of the 1995 Directors Plan, which appears as Exhibit A to this Proxy Statement.

**Purpose.** The purpose of the 1995 Directors Plan is to assist the Company in attracting and retaining, as members of the Board of Directors, highly qualified persons who are not employees of the Company or its subsidiaries while at the same time securing for stockholders the inherent benefit of increased stock ownership by the Company's directors.

**Administration.** The Board of Directors administers the 1995 Directors Plan and has broad authority with respect to award grants, including, without limitation, the authority to determine the recipients and the terms and conditions of awards granted under the plan.

**No Repricing.** In no case (except due to an adjustment to reflect a stock split or similar event or any repricing that may be approved by stockholders) will any adjustment be made to a stock option under the 1995 Directors Plan (by amendment, cancellation and regrant, exchange or other means) that would constitute a repricing of the per share exercise price of the award.

**Eligibility.** Directors of the Company who are not employees of the Company or any of its subsidiaries are the only persons eligible to receive awards under the 1995 Directors Plan.

**Authorized Shares.** The maximum number of shares of the Company's common stock that may be issued or transferred pursuant to awards under the 1995 Directors Plan is 600,000 shares. If stockholders approve this 1995 Directors Plan proposal, shares issued in respect of any full-value award granted under the 1995 Directors Plan will be counted against the share limit described in the preceding paragraph as 3.0 shares for every one share actually issued in connection with the award. For example, if a restricted stock award covering 100 shares of the Company's common stock were granted under the 1995 Directors Plan, 300 shares would be charged against the share limit with respect to that restricted stock award. For this purpose, a full-value award generally means any award granted under the 1995 Directors Plan (including awards granted to a non-employee director as a component of his or her annual retainer under the 1993 Directors Plan) other than an option with a per-share exercise price at least equal to the fair market value of a share of the Company's common stock at the time of grant of the option.

To the extent that an award is settled in cash or a form other than shares, the shares that would have been delivered had there been no such cash or other settlement will not be counted against the shares available for issuance under the 1995 Directors Plan. Shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 1995 Directors Plan will again be available for subsequent awards under the 1995 Directors Plan. Shares that are exchanged by a participant or withheld by the Company to pay the exercise price of an award granted under the 1995 Directors Plan, as well as any shares exchanged or withheld to satisfy the tax withholding obligations related to any award, will not be available for subsequent awards under the 1995 Directors Plan. The Company may not increase the applicable share limits of the 1995 Directors Plan by repurchasing shares of common stock on the market (by using cash received through the exercise of stock options or otherwise).

**Types of Awards.** The 1995 Directors Plan authorizes grants of stock options, restricted stock and restricted stock units, as well as the grant of shares to a non-employee director as a component of his or her annual retainer under the 1993 Directors Plan. Stock options granted under the 1995 Directors Plan generally have a maximum term of ten years and may not have a per-share exercise price that is less than the fair market value of a share of the Company's common stock on the date of grant.

**Transfer Restrictions.** Awards granted under the 1995 Directors Plan generally are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by the recipient.

**Adjustments.** As is customary in incentive plans of this nature, the share limit and the number and kind of shares available under the 1995 Directors Plan and any outstanding awards, as well as the exercise or purchase prices of awards, are subject to adjustment in the event of certain reorganizations, mergers, combinations, recapitalizations, stock splits, stock dividends, or other similar events that change the number or kind of shares outstanding, and extraordinary dividends or distributions of property to the stockholders.

**No Limit on Other Authority.** The 1995 Directors Plan does not limit the authority of the Board of Directors or any committee to grant awards or authorize any other compensation, with or without reference to the Company's common stock, under any other plan or authority.

**Termination of or Changes to the 1995 Directors Plan.** The Board of Directors may amend or terminate the 1995 Directors Plan at any time and in any manner. Stockholder approval for an amendment will be required only to the extent then required by applicable law or any applicable listing agency. For example, stockholder approval will be required for any amendment that proposes to increase the maximum number of shares that may be delivered with respect to awards granted under the 1995 Directors Plan. (Adjustments as a result of stock splits or similar events will not, however, be considered an amendment requiring stockholder approval.) Generally speaking, outstanding awards may be amended by the Board of Directors (except for a repricing), but the consent of the award holder is required if the amendment (or any plan amendment) materially and adversely affects the holder.

#### **Federal Income Tax Consequences of Awards under the 1995 Directors Plan**

The U.S. federal income tax consequences of the 1995 Directors Plan under current federal law, which is subject to change, are summarized in the following discussion of the general tax principles applicable to the 1995 Directors Plan. This summary is not intended to be exhaustive and, among other considerations, does not describe the deferred compensation provisions of Section 409A of the U.S. Internal Revenue Code to the extent an award is subject to and does not satisfy those rules, nor does it describe state, local, or international tax consequences.

With respect to stock options, the Company is generally entitled to deduct and the participant recognizes taxable income in an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. Nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant). Restricted stock units are generally subject to tax at the time of payment. In each of the foregoing cases, the Company will generally have a corresponding deduction at the time the participant recognizes income.

#### **Specific Benefits under the 1995 Stock Plan for Directors**

The Company has not approved any awards that are conditioned upon stockholder approval of the 1995 Directors Plan proposal. The Company is not currently considering any other specific award grants under the 1995 Directors Plan. If the proposed amendments to the 1995 Directors Plan had been in existence in fiscal 2006, the Company expects that its award grants to non-employee directors for fiscal 2006 would not have been substantially different from those actually made in that year.

The closing market price for a share of the Company's common stock as of March 20, 2007 was \$73.96 per share.



### EQUITY COMPENSATION PLAN INFORMATION

The Company currently maintains four equity compensation plans: the 1993 Directors Plan, the 1995 Directors Plan, the 2001 Long-Term Incentive Stock Plan (the 2001 LTISP), and the 1993 Long-Term Incentive Stock Plan (the 1993 LTISP). Each of these plans has been approved by the Company's stockholders.

The following table sets forth, for each of the Company's equity compensation plans, the number of shares of common stock subject to outstanding options, the weighted-average exercise price of outstanding options, and the number of shares remaining available for future award grants as of December 31, 2006.

Plan Category	Number of Shares of Common Stock  to be Issued upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Shares of Common Stock Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Shares Reflected in the First Column)
Equity Compensation Plans as disclosed in Form 10-K	27,298,907	\$ 48	20,175,452
Additional performance shares	3,430,518		
Equity Compensation Plans Approved by Stockholders	30,729,425(1)	\$ 48(2)	20,175,452(3)
Equity Compensation Plan Not Approved by Stockholders	N/A	N/A	N/A
<b>Total</b>	<b>30,729,425</b>	<b>\$ 48</b>	<b>20,175,452</b>

\* Includes shares attributable to dividends paid during the year.

- (1) Of these shares, 170,094 were subject to options then outstanding under the 1995 Directors Plan, 17,721,986 were subject to options then outstanding under the 2001 LTISP, and 1,995,861 were subject to options then outstanding under the 1993 LTISP Plan. In addition, this number includes 7,364,227 shares that were subject to outstanding awards granted under the 2001 LTISP and 46,739 shares that were subject to outstanding stock units credited under the 1993 Directors Plan. Additional performance shares of 3,430,518 reflect the number of shares deliverable under payment of outstanding restricted performance stock rights, assuming maximum performance criteria have been achieved.
- (2) This number reflects the weighted-average exercise price of outstanding 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 1993 Directors Plan.
- (3) Of the aggregate number of shares that remained available for future issuance, 45,925 were available under the 1993 Directors Plan, 318,000 were available under the 1995 Directors Plan, and 19,811,527 were available under the 2001 LTISP. No new awards may be granted under the 1993 LTISP.

#### Vote Required for Approval of the 1995 Directors Plan Proposal

The Board of Directors believes that the adoption of the 1995 Directors Plan proposal will promote the interests of the Company and its stockholders and will help the Company and its subsidiaries continue to be able to attract, retain and reward persons important to our success.

All non-employee members of the Board of Directors are eligible for awards under the 1995 Directors Plan and the 1993 Directors Plan and thus have a personal interest in the approval of the 1995 Directors Plan proposal.

#### Vote Required

If a quorum is present at the meeting, approval of this proposal requires an affirmative vote of a majority of the votes cast on the proposal.

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

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**PROPOSAL FOUR: STOCKHOLDER PROPOSAL**

The Congregation of the Passion, Holy Cross Province, 5700 N. Harlem Avenue, Chicago, Illinois 60631, a beneficial owner of 106 shares of Common Stock of the Company; Sisters of Mercy, Regional Community of Detroit Charitable Trust, 29000 Eleven Mile Road, Farmington Hills, Michigan 48336, a beneficial owner of 100 shares of Common Stock of the Company; The Sisters of St. Francis of Philadelphia, 609 South Convent Road, Aston, Pennsylvania 19014, a beneficial owner of at least \$2,000 worth of Common Stock of the Company; The Congregation of Sisters of St. Agnes, 320 County Road K, Fond du Lac, Wisconsin 54935, a beneficial owner of 72 shares of Common Stock of the Company; The Congregation of the Sisters of Charity of the Incarnate Word, 6510 Lawndale, Houston, Texas 77223, a beneficial owner of 100 shares of Common Stock of the Company; Sinsinawa Dominicans, 585 County Road Z, Sinsinawa, Wisconsin 53824, a beneficial owner of 80 shares of Common Stock of the Company; School Sisters of Notre Dame Cooperative Investment Fund, 336 East Ripa Avenue, St. Louis, Missouri 63125, a beneficial owner of 88 shares of Common Stock of the Company; School Sisters of Notre Dame Milwaukee Province, 13105 Watertown Plank Road, Elm Grove, Wisconsin 53122, a beneficial owner of 200 shares of Common Stock of the Company, the proponents of a stockholder proposal, have stated that the proponents intend to present a proposal at the Annual Meeting. The proposal and supporting statement, for which the Board of Directors accepts no responsibility, is set forth below. The Board of Directors opposes the proposal for the reasons stated after this proposal.

WHEREAS the United States exports weapons and related military services through foreign military sales (government-to-government), direct commercial weapons sales (U.S. companies to foreign buyers), equipment leases, transfers of excess defense materiel and emergency drawdowns of weaponry.

The U.S. ranked first in arms transfer deliveries with developing nations, including those in the Near East and Asia, with \$7.746 billion for 2005. The weapons sold range from ammunition to tanks, combat aircraft, missiles and submarines. [These figures were taken from The Department of Defense Security Assistance Agency's Facts Book released at the end of fiscal year 2005, September 30, 2005. A listing of countries located in the regions defined for the purpose of this analysis Asia, Near East, Latin America, and Africa is provided at the end of the report Conventional Arms Transfers to Developing Nations, 1997-2004, Congressional Research Service, 8-29-05, <http://www.fas.org/sgp/crs/natsec/RL33051.pdf>]

In a number of recent U.S. combat engagements (e.g., the first Gulf War, Somalia, Afghanistan and Iraq), our troops faced adversaries who had previously received U.S. weapons or military technology.

In Fiscal Year 2005, Northrop Grumman was ranked as 3<sup>rd</sup> largest Department of Defense contractor with \$13.7 billion in contracts. [100 Companies Receiving the Largest Dollar Volume of Prime Contract Awards Fiscal Year 2005, *Government Executive*, 8-15-06]

In Northrop Grumman's 2005 Annual Report it was noted that 5% of our company's revenues came from international sources.

RESOLVED: Shareholders request that, within six months of the annual meeting, the Board of Directors provide a comprehensive report, at reasonable cost and omitting proprietary and classified information, of Northrop Grumman's foreign sales of weapons-related products and services.

**Supporting Statement**

We believe it is reasonable that the report include:

1. Processes used to determine and promote foreign sales e.g. Israel, Saudi Arabia, Egypt and other Middle East countries;
2. Criteria for choosing countries with which to do business, including selling weapons components and technology and subcontracting arms manufacturing and assembly overseas; (*Arms without Borders*, Amnesty International USA)

3. Procedures used to negotiate foreign arms sales, government-to-government and direct commercial sales and the percentage of sales for each category;
4. Categories of military equipment or components, including dual use items exported for the past three years, with as much statistical information as permissible; contracts for servicing/maintaining equipment; offset agreements; and licensing and/or co-production with foreign governments.

We believe with the American Red Cross that the greater the availability of arms, the greater the violations of human rights and international humanitarian law. Global security is the security of all people. Several times in our recent history, we've seen weapons sold to one country result in a threat to our own security. We know, too, that there is an increase in human rights abuses inflicted on women and children, people of minority ethnicities, NGOs offering medical services and, now, injuries, torture and death of employees of private military corporations contracted to the DOD (e.g. Iraq).

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE AGAINST THIS PROPOSAL.**

Northrop Grumman's vision is to be the most trusted provider of systems and technologies that ensure the security and freedom of our nation and its allies. Consistent with this vision, Northrop Grumman bids on and performs contracts for many customers, including U.S., state, local and foreign governments, and U.S. and foreign commercial entities. Northrop Grumman decides whether to bid any specific U.S. or foreign opportunity by evaluating the projected return to our stockholders and the Company's capability to successfully perform, after consideration of all relevant factors.

Northrop Grumman applies its core values in bidding and performing all contracts, including adherence to the highest standards of ethics and integrity. The Northrop Grumman Standards of Business Conduct require adherence to all applicable U.S. and foreign laws. This includes the requirement to secure required U.S. Government approvals for foreign bids, contracts, exports and re-exports, to ensure they are consistent with the national interest, including as applicable the U.S. Departments of Defense, State, Commerce and Treasury, as well as the U.S. Congress for certain transactions involving military sales. The U.S. Government views the sale, export, and re-transfer of defense articles and defense services as an integral part of safeguarding U.S. national security and furthering U.S. foreign policy objectives. Authorizations to transfer defense articles and provide defense services, if applied judiciously, can help meet the legitimate needs of friendly countries, deter aggression, foster regional stability, and promote the peaceful resolution of disputes. The U.S., however, is cognizant of the potentially adverse consequences of indiscriminate arms transfers and, therefore, strictly regulates exports and re-exports of defense items and technologies to protect its national interests and those interests in peace and security of the broader international community. Northrop Grumman Corporation is registered with the Department of State and has a robust infrastructure to comply with applicable export requirements in furtherance of these U.S. Government interests.

The proposal requests a comprehensive report of Northrop Grumman's foreign sales of weapons-related products and services, while omitting proprietary and classified information. We believe the requested report would not be possible to produce without risking disclosure of proprietary information, which would potentially have a significant detrimental competitive effect on the Company's interests in bidding and performing foreign contracts.

**Vote Required**

If a quorum is present at the meeting, approval of this proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**FOR THESE REASONS, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE AGAINST PROPOSAL NUMBER FOUR.**

**PROPOSAL FIVE: STOCKHOLDER PROPOSAL**

The Service Employees International Union Master Trust, 11 Dupont Circle, Suite 900, Washington, DC 20036, a beneficial owner of 13,000 shares of Common Stock of the Company, the proponent of a stockholder proposal, has stated that the proponent intends to present a proposal at the Annual Meeting. The proposal and supporting statement, for which the Board of Directors accepts no responsibility, is set forth below. The Board of Directors opposes the proposal for the reasons stated after this proposal.

RESOLVED, that shareholders of Northrop Grumman Corporation ( Northrop Grumman ) urge the board of directors to adopt a policy that shareholders be given the opportunity at each annual meeting of shareholders to vote on an advisory resolution, to be proposed by Northrop Grumman s management, to ratify the compensation of the named executive officers ( NEOs ) set forth in the proxy statement s Summary Compensation Table (the SCT ) and the accompanying narrative disclosure of material factors provided to understand the SCT (but not the Compensation Discussion and Analysis). The proposal submitted to shareholders should make clear that the vote is non-binding and would not affect any compensation paid or awarded to any NEO.

**Supporting Statement**

Investors are increasingly concerned about mushrooming executive compensation, which sometimes appears to be insufficiently aligned with the creation of shareholder value. Media and government focus on the backdating of stock options has increased such investor concern. This proposed reform can help improve investor confidence in compensation practices at our company.

The SEC has created a new rule, with record support from investors, requiring companies to disclose additional information about compensation and perquisites for top executives. The rule goes into effect this year. In establishing the rule, the SEC has made it clear that it is the role of market forces, not the SEC, to provide checks and balances on compensation practices.

We believe that existing U.S. corporate governance arrangements, including SEC rules and stock exchange listing standards, do not provide shareholders with enough mechanisms for providing input to boards on senior executive compensation. In contrast to U.S. practices, in the United Kingdom, public companies allow shareholders to cast an advisory vote on the directors remuneration report, which discloses executive compensation. Such a vote isn t binding, but gives shareholders a clear voice that could help shape senior executive compensation.

Currently, U.S. stock exchange listing standards require shareholder approval of equity-based compensation plans; those plans, however, set general parameters and accord the compensation committee substantial discretion in making awards and establishing performance thresholds for a particular year. Shareholders do not have any mechanism for providing ongoing feedback on the application of those general standards to individual pay packages (*Pay Without Performance*, 49, 2004).

Similarly, performance criteria submitted for shareholder approval to allow a company to deduct compensation in excess of \$1 million are broad and do not constrain compensation committees in setting performance targets for particular senior executives. Withholding votes from compensation committee members who are standing for reelection are also a blunt and insufficient instrument for registering dissatisfaction with the way the committee has administered compensation plans and policies in the previous year.

Accordingly, we urge the board to allow shareholders to express their opinion about senior executive compensation at Northrop Grumman by establishing an annual referendum process. The results of such a vote would provide the board and management with useful information about how shareholders view the company s senior executive compensation reported each year, and whether compensation plans are in shareholders best interests.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE AGAINST THIS PROPOSAL.**

The Board believes that annual stockholder reviews of executive compensation are not the most cost-effective and efficient manner to review management's performance. The Company has state-of-the-art procedures in place to accomplish such reviews. The Compensation and Management Development Committee recognizes the importance of a continuous and effective review of the programs, policies and procedures to capitalize on industry best practices and annually performs a self evaluation to determine what changes, if any, would improve the Company's executive compensation program.

The Board of Directors believes that stockholders currently have ample means and opportunity to inform Board members of their views regarding any aspect of the compensation of named executive officers. Among other things, stockholders' views on this topic may be communicated in writing to individual Board members, the Independent Lead Director, the Independent Directors as a group, or the full Board as a group. In addition, the Company has instituted a number of changes to its corporate governance practices to enable stockholders to express their views on the performance of any of the directors. The classified board is in the process of being eliminated, giving stockholders the opportunity to vote for or against each director on an annual basis. The Company has also instituted majority voting, requiring a director to receive more votes for than against to be re-elected to the Board. The Board of Directors believes that these provide effective methods for stockholders to express dissatisfaction with actions by the members of the Compensation and Management Development Committee.

Determining appropriate balance in executive compensation is extremely important, and the Compensation and Management Development Committee members take this responsibility seriously. They realize the importance of hiring the best talent in a very competitive market and motivating performance critical to the long term success of the Company and to the interests of the stockholders. The Compensation and Management Development Committee is composed of individuals who devote significant time to reviewing the proposed compensation for the Company's senior management. Further, the SEC recently adopted new rules expanding the disclosure requirements for executive compensation. Stockholders should give these new rules a chance to work before approving an additional requirement. In addition, the Committee hired an experienced independent compensation consultant who reports to the Committee, not management, and performs no other work for the Company.

Because the non-binding vote procedures set forth in the proposal would not add any significant information to that which can now be provided to the Board, and because an annual shareholder review could be detrimental to the Company's future efforts to recruit and retain top management talent, the Board of Directors recommends against adoption of the proposal.

**Vote required**

If a quorum is present at the meeting, approval of this proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**FOR THESE REASONS, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE AGAINST PROPOSAL NUMBER FIVE.**

**PROPOSAL SIX: STOCKHOLDER PROPOSAL**

Mr. John Chevedden, 2215 Nelson Avenue, No. 205, Redondo Beach, California 90278, a beneficial owner of 100 shares of Common Stock of the Company, the proponent of a stockholder proposal, has stated that the proponent intends to present a proposal at the Annual Meeting. The proposal and supporting statement, for which the Board of Directors accepts no responsibility, is set forth below. The Board of Directors opposes the proposal for the reasons stated after this proposal.

**6 Separate the Roles of CEO and Chairman**

RESOLVED: Shareholders request that our Board establish a rule (specified in our charter or bylaws unless absolutely impossible) of separating the roles of our CEO and Board Chairman, so that an independent director who has not served as an executive officer of our Company, serve as our Chairman whenever possible.

This proposal gives our company an opportunity to follow SEC Staff Legal Bulletin 14C to cure a Chairman's non-independence. This proposal shall not apply to the extent that compliance would necessarily breach any contractual obligations in effect at the time of our shareholder meeting.

The primary purpose of our Chairman and Board of Directors is to protect shareholders' interests by providing independent oversight of management, including our CEO. Separating the roles of CEO and Chairman can promote greater management accountability to shareholders and lead to a more objective evaluation of our CEO.

More companies are recognizing the separation of CEO and Chairman to be a sound corporate practice. The Council of Institutional Investors adopted a Corporate Governance Policy which recommends, "The board should be chaired by an independent director."

It is important to take a step forward and support this one proposal to improve our corporate governance since our 2006 governance standards were not impeccable. For instance in 2006 it was reported (and certain concerns are noted):

The Corporate Library <http://www.thecorporatelibrary.com> an independent investment research firm, rated our company: D in Overall Board Effectiveness.

High Concern in CEO Pay \$8 million.

High in Overall Governance Risk Assessment.

We had no Independent Chairman and not the best qualified Lead Director.

Our Lead Director, Mr. Chain, had 15-years director tenure Independence concern.

Mr. Chain had additional power as the Chairman of our Compensation Committee.

Our directors could be elected with one yes-vote from our 340 million shares under our obsolete plurality voting.

We had no right to call for a special meeting or act by written consent.

Ten of our directors were designated as Accelerated Vesting directors by The Corporate Library due to their involvement with a board that accelerated stock option vesting just prior to implementation of FAS 123R policies in order to avoid recognizing the related

expense.



Six directors served on four boards each Over-commitment concern.

Mr. Chain

Ms. Peters

Mr. Frost

Mr. Odeen

Mr. Frank

Mr. Myers

Two directors had potentially compromising non-director links to our company Independence concern.

Mr. Larson

Mr. Sharer

Also Mr. Larson had a high 33% of votes withheld at the 2006 annual meeting.

Our directors also served on three boards rated D by The Corporate Library.

1) Mr. Chain	ConAgra (CAG)	D-rated
2) Ms. Peters	Merrill Lynch (MER)	D-rated
3) Mr. Sharer	Amgen (AMGN)	D-rated

The above status shows there is room for improvement and reinforces the reason to take one step forward now and vote yes to:

**Separate the Roles of CEO and Chairman**

**Yes on 6**

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**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE AGAINST THIS PROPOSAL.**

The Board of Directors believes that it is in the best interests of the Company and its stockholders for the Board to have the flexibility to determine the best director to serve as Chairman of the Board, whether such director is an independent director or the Chief Executive Officer. At the present time, the Board believes that the Company and its stockholders are best served by having the Chief Executive Officer also serve as Chairman of the Board. While the Board may separate these positions in the future and has done so in the past in certain circumstances, it believes that implementing the proposal would deprive the Board of its ability to organize its functions and conduct its business in the most efficient and effective manner.

The Board of Directors has been, and continues to be committed to high standards of corporate governance. Independent Directors select a Lead Independent Director from among themselves, with clearly defined responsibilities. The role of the Lead Independent Director is to:

Preside at all meetings of the Board at which the Chairman is not present, including executive sessions of the Independent Directors

Serve as liaison between the Chairman and the Independent Directors

Advise on the quality, quantity and timeliness of the information sent to the Board

Provide the Chairman with input as to the preparation of the agendas of the Board and Committee meetings

Advise the Chairman on the appropriate schedule of Board meetings to assure that there is sufficient time for discussion of all agenda items

Have the authority to call meetings of the Independent Directors

Interview, along with the Chairman and the Chair of the Nominating and Corporate Governance Committee, all Board candidates and make recommendations to the Committee and the Board

If requested by major stockholders, ensure that he or she is available for consultation and direct communication. Any stockholder can communicate with the Lead Independent Director or any of the directors as described on Page [ ] of this Proxy Statement and on the Company's website. The Company has adopted majority voting requiring that directors receive more votes for than against in order to be re-elected. The Board believes that the Company's corporate governance structure makes it unnecessary and ill advised to have an absolute requirement that the Chairman be an independent director. The Board believes that adopting such a rule would only limit the Board's ability to select the director it believes best suited to serve as Chairman of the Board, and is not in the best interests of the Company and its stockholders.

**Vote Required**

If a quorum is present at the meeting, approval of this proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**FOR THESE REASONS, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE AGAINST PROPOSAL NUMBER SIX.**

## MISCELLANEOUS

### **Voting on Other Matters**

Management is not aware of any other business to be transacted at the Annual Meeting. Northrop Grumman's Bylaws outline procedures, including minimum notice provisions, for stockholder nomination of directors and submission of other stockholder business to be transacted before the Annual Meeting. A copy of the pertinent Bylaw provisions is available on request to the Corporate Secretary, Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, California 90067. If any other business properly comes before the Annual Meeting, it is intended that the shares represented by proxies will be voted in accordance with the judgment of the persons authorized to vote them.

### **Proposal of Stockholders**

Any stockholder who intends to present a proposal at the annual meeting in the year 2008 must deliver the proposal to the Corporate Secretary at 1840 Century Park East, Los Angeles, California 90067:

Not later than December 7, 2007, if the proposal is submitted for inclusion in our proxy materials for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934

Not earlier than November 7, 2007 and not later than December 7, 2007, if the proposal is submitted pursuant to the Company's Bylaws, in which case we are not required to include the proposal in our proxy materials.

A copy of the Company's Bylaws is available on request to Corporate Secretary, Northrop Grumman Corporation, 1840 Century Park East, Los Angeles, California 90067.

### **Householding Information**

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of this proxy statement may have been sent to multiple shareholders in your household. The Company will promptly deliver a separate copy to you if you write to the Company at the following address: Office of the Secretary, 1840 Century Park East, Los Angeles, California 90067. If you want to receive separate copies of the proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact the Company at the above address.

### **Cost of Soliciting Proxies**

The cost of soliciting proxies in the accompanying form will be paid by the Company. In addition to solicitation by mail, arrangements will, where appropriate, be made with brokerage houses and other custodians, nominees and fiduciaries to send proxy materials to beneficial owners. The Company will, upon request, reimburse them for reasonable expenses incurred. The Company has retained D.F. King & Co, Inc. of New York at an estimated fee of \$12,500 plus reasonable disbursements. Officers, directors and regular employees of the Company may request the return of proxies personally, by means of materials prepared for stockholders and employee-stockholders or by telephone or telegram to the extent deemed appropriate by the Board of Directors.

No additional compensation will be paid to such individuals for this activity. The extent to which this solicitation will be necessary will depend upon how promptly proxies are received; therefore, stockholders are urged to return their proxies without delay.

Stephen D. Yslas

*Corporate Vice President, Secretary and Deputy General Counsel*

April 6, 2007

**NOTICE: THE COMPANY FILED AN ANNUAL REPORT ON FORM 10-K EFFECTIVE FEBRUARY 21, 2007. STOCKHOLDERS OF RECORD ON MARCH 20, 2007 MAY OBTAIN A COPY OF THIS REPORT WITHOUT CHARGE FROM THE CORPORATE SECRETARY, NORTHROP GRUMMAN CORPORATION, 1840 CENTURY PARK EAST, LOS ANGELES, CALIFORNIA 90067.**

**NORTHROP GRUMMAN CORPORATION**  
**1995 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS,**  
**AS AMENDED**

Section 1: *Purpose*

The Northrop Grumman Corporation 1995 Stock Option Plan for Non-Employee Directors, as amended ( *Plan* ), has been adopted to promote the longer-term growth and financial success of the Company by (1) enhancing its ability to attract and retain nonaffiliated individuals of outstanding ability as members of the Board and (2) promoting a greater identity of interest between non-employee members of the Board and stockholders. Subject to approval of the amendments to the Plan reflected in this document by the Company's stockholders at the Company's 2007 Annual Meeting of stockholders, this version of the Plan is effective on and after the Effective Date, and Awards granted after the Company's 2007 Annual Meeting of stockholders shall be made under this version of the Plan and not under the Plan as previously in effect. For the terms and conditions of the Plan applicable to Awards granted under the Plan before the Effective Date, refer to the version of the Plan in effect as of the date such Award was granted.

Section 2: *Definitions*

As used in the Plan, the following terms have these respective meanings:

*1934 Act* means the Securities Exchange Act of 1934, as amended.

*1993 Plan Award* means an award of shares of Common Stock to a Non-Employee Director as a component of his or her annual retainer under the Company's 1993 Stock Plan for Non-Employee Directors, as amended.

*Award* means a Stock Award or Stock Option granted under the Plan.

*Board* means the Company's Board of Directors.

*Code* means the United States Internal Revenue Code of 1986, as amended.

*Committee* means the Nominating and Corporate Governance Committee (or its successor) of the Board.

*Common Stock* means the Company's Common Stock, par value \$1.00 per share, or any successor stock issued by the Company in replacement or conversion thereof.

*Company* means Northrop Grumman Corporation, a corporation established under the laws of the State of Delaware.

*Effective Date* means May 16, 2007.

*Fair Market Value* means for any given day the closing sales price on such date of a share of Common Stock as reported on the principal securities exchange on which such shares of Common Stock are then listed or admitted to trading or as reported on the National Association of Securities Dealers Automated Quotation ( *NASDAQ* ) National Market System, if not so listed or admitted. If no sales of Common Stock were made on such exchange or reported on the NASDAQ system on that date, the closing price of a share of Common Stock for the preceding day of such exchange or as reported by NASDAQ shall be substituted.

*Full-Value Award* means any Award granted under the Plan other than a Stock Option with a per-share exercise price that is not less than the Fair Market Value of the Common Stock on the date the option is granted. For purposes of Section 5(a) of the Plan, the term *Full-Value Awards* includes 1993 Plan Awards.

**Non-Employee Director** means any director of the Company who is not an employee of the Company or any subsidiary or affiliate of the Company.

**Participant** means any Non-Employee Director who has been granted an Award under the Plan.

**Plan** means the Northrop Grumman Corporation 1995 Stock Plan for Non-Employee Directors, as amended.

**Stock Award** means the grant of a right (whether denominated in shares or units and whether or not subject to vesting requirements) to purchase or acquire shares of Common Stock under the Plan.

**Stock Option** means the grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Committee.

### Section 3: *Effective Date*

The Plan shall be effective beginning on the Effective Date and shall remain in effect until terminated by the Board. If the Plan is terminated, the terms of the Plan shall continue to apply to all outstanding Awards granted prior to such termination.

### Section 4: *Plan Administration*

The Plan shall be administered by the Committee. Subject to the following provisions of this Section 4, the Committee may delegate different levels of authority to make grants under the Plan to different committees, provided that each such committee consists of one or more members of the Board. Transactions in or involving Awards intended to be exempt under Rule 16b-3 under the 1934 Act must be duly and timely authorized by the Board or a committee of non-employee directors (as this term is used in or under Rule 16b-3).

The Committee shall have full and exclusive power to interpret the Plan and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which power shall be executed in the best interests of the Company and in keeping with the objectives of the Plan. This power includes, but is not limited to, selecting Non-Employee Directors who will receive Awards, establishing all Award terms and conditions and adopting such modifications, amendments and procedures as may be necessary to comply with provisions of all applicable laws and regulatory rulings in order to assure the viability of Awards granted under the Plan. In no event (other than due to an adjustment as contemplated by Section 5(c) or any repricing that may be approved by stockholders) shall any such modification, amendment or procedure constitute a repricing (by amendment, substitution, cancellation and regrant, exchange or other means) of the per-share exercise price of any Stock Option.

In making any determination or in taking or not taking any action under the Plan, the Committee may obtain and may rely on the advice of experts, including employees of and professional advisors to the Company. Any action taken by, or inaction of, the Committee relating to or pursuant to the Plan shall be within the absolute discretion of that entity or body and shall be conclusive and binding on all persons.

### Section 5: *Common Stock Available for Awards*

(a) *Number of Shares.* A maximum of 600,000 shares of Common Stock (subject to adjustment pursuant to Section 5(c)) may be issued pursuant to Awards granted under the Plan; provided, that any shares issued in respect of any Full-Value Award granted under the Plan shall be counted against the Plan's share limit as 3.0 shares for every share actually issued in connection with the Award.

(b) *Share-Counting.* To the extent that an Award granted under the Plan is settled in cash or a form other than shares of Common Stock, the shares that would have been delivered had there been no such cash or other settlement shall not be counted against the shares available for issuance under the Plan. Shares that are subject to or underlie Awards granted under the Plan which expire or for any reason are cancelled or terminated, are

forfeited, fail to vest, or for any other reason are not paid or delivered under the Plan shall again be available for subsequent Awards under the Plan. Shares that are exchanged by a Participant or withheld by the Company as full or partial payment in connection with any Award under the Plan, as well as any shares exchanged by a Participant or withheld by the Company to satisfy the tax withholding obligations related to any Award, shall not be available for subsequent Awards under the Plan.

(c) *Adjustments.* Upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Board shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of Awards (including the share limit set forth in Section 5(a) above), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding Awards, (3) the grant, purchase, or exercise price of any outstanding Awards, and/or (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding Awards, in each case to the extent necessary to preserve (but not increase) the level of incentives intended by the Plan and the then-outstanding Awards. It is intended that, if possible, any adjustments contemplated by this Section 5(c) be made in a manner that satisfies applicable legal, tax (including, without limitation and as applicable in the circumstances, Section 409A of the Code) and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements. Without limiting the generality of Section 4, any good faith determination by the Board as to whether an adjustment is required in the circumstances pursuant to this Section 5(c), and the extent and nature of any such adjustment, shall be conclusive and binding on all persons.

#### Section 6: Awards

(a) *Documentation of Grants.* Awards under the Plan shall be evidenced by agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable upon a termination of the Participant's service as a director, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind any Award (subject to the restrictions on the repricing of Stock Options set forth in Section 4). The Committee need not require the execution of any such agreement, in which case acceptance of the Award by the respective Participant shall constitute agreement to the terms of the Award.

(b) *Terms of Stock Options.* Unless otherwise provided by the Committee in the Award agreement, each Stock Option shall have a term of ten years and shall become immediately exercisable on the grant date. When a Participant ceases to be a member of the Board, each Stock Option or portion thereof held by such Participant shall continue to be exercisable for the lesser of five years or until the end of the original term. Notwithstanding the foregoing, if a Participant is terminated as a member of the Board for cause, any exercisable Stock Option shall cease to be exercisable on the date of such termination.

#### Section 7: General Provisions

(a) *Non-Transferability of Awards.* Unless otherwise expressly provided in (or pursuant to) this Section 7(a), by applicable law or by the Award agreement, (i) all Awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (ii) Awards shall be exercised only by the holder; and (iii) amounts payable or shares issuable pursuant to an Award shall be delivered only to (or for the account of) the holder. The foregoing exercise and transfer restrictions shall not apply to:

(a) transfers to the Company; (b) the designation of a beneficiary to receive benefits in the event of the Participant's death or, if the Participant has died, transfers to or exercise by the Participant's beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution; (c) transfers pursuant to a qualified domestic relations order (as defined in the Code); (d) if the Participant has



suffered a disability, permitted transfers to or exercises on behalf of the holder by his or her legal representative; or (e) the authorization by the Committee of cashless exercise procedures. The Committee by express provision in the Award agreement or an amendment thereto may permit an Award to be transferred to, exercised by and paid to certain persons or entities related to the Participant, including but not limited to members of the Participant's family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant's family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a blind trust in connection with the Participant's termination of service with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company's lawful issue of securities.

(b) *Plan Amendment.* The plan may only be amended by a disinterested majority of the Board as it deems necessary or appropriate to better achieve the purpose of the Plan, except that no such amendment shall be made without the approval of the Company's stockholders which would increase the number of shares available for issuance under the Plan (except for adjustments contemplated by Section 5(c)) and no such amendment shall, without written consent of the Participant, affect in any manner materially adverse to the Participant any rights or benefits of the Participant under any Award granted under the Plan prior to the effective date of such amendment.

(c) *Future Rights.* Neither the Plan nor the granting of Awards nor any such action taken pursuant to the Plan, shall constitute or be evidence of any agreement or understanding, express or implied, that the Company shall retain a Participant for any period of time, or at any particular rate of compensation as a member of the Board. Nothing in the Plan shall in any way limit or affect the right of the Board or the stockholders of the Company to remove any Participant from the Board or otherwise terminate his or her service as a member of the Board.

(d) *Governing Law.* The validity, construction and effect of the Plan and any such actions taken under or relating to the Plan shall be determined in accordance with the laws of the State of California and applicable Federal law.



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•• Mark this box with an X if you have made changes to your name or address details above.

Annual Meeting Proxy Card

C0123456789 [12345]

**A Election of Directors**

**PLEASE REFER TO THE REVERSE SIDE FOR TELEPHONE AND INTERNET VOTING INSTRUCTIONS.**

1. The Board of Directors recommends a vote FOR the listed nominees.

	<b>For</b>	<b>Against</b>	<b>Abstain</b>		<b>For</b>	<b>Against</b>	<b>Abstain</b>
01 - Lewis W. Coleman	..	..	..	06 - Richard B. Myers	..	..	..
02 - Vic Fazio	..	..	..	07 - Philip A. Odeen	..	..	..
03 - Donald E. Felsing	..	..	..	08 - Aulana L. Peters	..	..	..
04 - Stephen E. Frank	..	..	..	09 - Kevin W. Sharer	..	..	..
05 - Charles R. Larson	..	..	..	10 - Ronald D. Sugar	..	..	..

**B Issues**

The Board of Directors recommends a vote FOR the following proposals.

The Board of Directors recommends a vote AGAINST the following proposal.

	<b>For</b>	<b>Against</b>	<b>Abstain</b>		<b>For</b>	<b>Against</b>	<b>Abstain</b>
2. Proposal to ratify the appointment of Deloitte & Touche LLP as the Company's Independent Auditor.	..	..	..	4. Shareholder proposal regarding a report on foreign military sales	..	..	..

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3. Proposal to amend the Company's 1995 Stock Plan for Non-Employee Directors .. .. .
5. Shareholder proposal regarding a vote on executive compensation .. .. .
6. Shareholder proposal regarding an Independent Board Chairman. .. .. .

**C Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.**

NOTE: Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Signature 1 - Please keep signature within the box

Signature 2 - Please keep signature within the box

Date (mm/dd/yyyy)

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**Proxy - NORTHROP GRUMMAN CORPORATION**

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**ANNUAL MEETING OF STOCKHOLDERS**

**MAY 16, 2007**

**10:00 A.M.**

**The Space Technology Presentation Center**

**One Space Park**

**Redondo Beach, California 90278**

**This Proxy/Voting Instruction Card is Solicited on Behalf of The Board of Directors for the 2007 Annual Meeting of Stockholders**

The undersigned hereby constitutes and appoints W. Burks Terry and Stephen D. Yslas, and each of them, attorneys and proxies with full power of substitution, to represent the undersigned and to vote all shares of Common Stock, \$1.00 par value, of Northrop Grumman Corporation (the Company), that the undersigned would be entitled to vote if personally present at the 2007 Annual Meeting of Stockholders of the Company to be held on Wednesday, May 16, 2007, at 10:00 a.m. (Pacific Daylight Time) at The Space Technology Presentation Center, One Space Park, Redondo Beach, California 90278, and at any and all adjournments or postponements thereof (the Meeting), as herein specified (or, if no direction is given, FOR the nominees) and in such proxyholder's discretion upon any other matter that may properly come before the Meeting.

THIS PROXY WILL BE VOTED AS DIRECTED. IF NOT OTHERWISE DIRECTED, THIS PROXY WILL BE VOTED FOR PROPOSALS 1, 2 AND 3 AND AGAINST PROPOSAL 4, 5 and 6.

PLEASE MARK, DATE AND SIGN THIS PROXY AND RETURN IT PROMPTLY, EVEN IF YOU PLAN TO ATTEND THE ANNUAL MEETING.

If shares are held on your behalf under any of the Company Saving Plans, the proxy serves to provide confidential instructions to the plan Trustee or Voting Manager who then votes the shares. Instructions must be received by May 11, 2007 to be included in the tabulation to the plan Trustee or Voting Manager. For shares represented by proxies not received by this date, the applicable plan Trustee or Voting Manager will treat the received proxies as instructions to vote the respective plan shares in the same proportion as shares held under the plan for which voting instructions have been received.

(Continued and to be signed on the other side)

**Telephone and Internet Voting Instructions**

**You can vote by telephone OR Internet! Available 24 hours a day 7 days a week!**

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

**To vote using the Telephone (within U.S. and Canada)**

Call toll free 1-800-652-VOTE (8683) in the United States or Canada any time on a touch tone telephone. There is **NO CHARGE** to you for the call.

Follow the simple instructions provided by the recorded message.

**To vote using the Internet**

Go to the following web site:

**WWW.COMPUTERSHARE.COM/EXPRESSVOTE**

Enter the information requested on your computer screen and follow the simple instructions.

**VALIDATION DETAILS ARE LOCATED ON THE FRONT OF THIS FORM IN THE COLORED BAR.**

**If you vote by telephone or the Internet, please DO NOT mail back this proxy card.**

**Proxies submitted by telephone or the Internet must be received by 1:00 a.m., Central Time, on May 16, 2007.**

**THANK YOU FOR VOTING**