

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2016  
or

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-16411

**NORTHROP GRUMMAN CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**80-0640649**

(I.R.S. Employer  
Identification No.)

**2980 Fairview Park Drive,  
Falls Church, Virginia**

(Address of principal executive offices)

**22042**

(Zip Code)

**(703) 280-2900**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of April 22, 2016, 180,451,623 shares of common stock were outstanding.

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## NORTHROP GRUMMAN CORPORATION

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME  
(Unaudited)

<i>\$ in millions, except per share amounts</i>	Three Months Ended March 31	
	2016	2015
<b>Sales</b>		
Product	\$ 3,478	\$ 3,429
Service	2,478	2,528
Total sales	5,956	5,957
<b>Operating costs and expenses</b>		
Product	2,611	2,542
Service	1,950	2,000
General and administrative expenses	656	635
<b>Operating income</b>	739	780
Other (expense) income		
Interest expense	(76)	(76)
Other, net	13	—
Earnings before income taxes	676	704
Federal and foreign income tax expense	120	220
<b>Net earnings</b>	\$ 556	\$ 484
<b>Basic earnings per share</b>	\$ 3.07	\$ 2.45
Weighted-average common shares outstanding, in millions	181.3	197.7
<b>Diluted earnings per share</b>	\$ 3.03	\$ 2.41
Weighted-average diluted shares outstanding, in millions	183.4	200.5
Net earnings (from above)	\$ 556	\$ 484
Other comprehensive income		
Change in unamortized benefit plan costs, net of tax	101	96
Change in cumulative translation adjustment	(4)	(29)
Other, net	(1)	(1)
Other comprehensive income, net of tax	96	66
<b>Comprehensive income</b>	\$ 652	\$ 550

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Unaudited)

<i>\$ in millions</i>	March 31, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 1,277	\$ 2,319
Accounts receivable, net	3,346	2,841
Inventoried costs, net	898	807
Prepaid expenses and other current assets	185	367
Total current assets	5,706	6,334
Property, plant and equipment, net of accumulated depreciation of \$4,877 in 2016 and \$4,849 in 2015	3,230	3,064
Goodwill	12,462	12,460
Deferred tax assets	1,383	1,409
Other non-current assets	1,152	1,157
<b>Total assets</b>	<b>\$ 23,933</b>	<b>\$ 24,424</b>
<b>Liabilities</b>		
Trade accounts payable	\$ 1,204	\$ 1,282
Accrued employee compensation	1,071	1,195
Advance payments and amounts in excess of costs incurred	1,409	1,537
Other current liabilities	1,271	1,443
Total current liabilities	4,955	5,457
Long-term debt, net of current portion	6,387	6,386
Pension and other post-retirement benefit plan liabilities	6,117	6,172
Other non-current liabilities	853	887
<b>Total liabilities</b>	<b>18,312</b>	<b>18,902</b>
<b>Commitments and contingencies (Note 7)</b>		
<b>Shareholders' equity</b>		
Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2016—180,828,855 and 2015—181,303,083	181	181
Paid-in capital	—	—
Retained earnings	10,664	10,661
Accumulated other comprehensive loss	(5,224)	(5,320)
Total shareholders' equity	5,621	5,522
<b>Total liabilities and shareholders' equity</b>	<b>\$ 23,933</b>	<b>\$ 24,424</b>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
<b>Operating activities</b>		
Net earnings	\$ 556	\$ 484
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	103	99
Stock-based compensation	14	24
Excess tax benefits from stock-based compensation	—	(105)
Deferred income taxes	(35)	204
Changes in assets and liabilities:		
Accounts receivable, net	(514)	(325)
Inventoried costs, net	(89)	(76)
Prepaid expenses and other assets	(4)	16
Accounts payable and other liabilities	(364)	(889)
Income taxes payable	174	366
Retiree benefits	105	(440)
Other, net	(6)	(12)
Net cash used in operating activities	\$ (60)	\$ (654)
<b>Investing activities</b>		
Capital expenditures	(298)	(117)
Other, net	—	2
Net cash used in investing activities	(298)	(115)
<b>Financing activities</b>		
Common stock repurchases	(282)	(825)
Net proceeds from issuance of long-term debt	—	600
Payments of long-term debt	(107)	—
Cash dividends paid	(159)	(156)
Payments of employee taxes withheld from share-based awards	(137)	(171)
Other, net	1	104
Net cash used in financing activities	(684)	(448)
Decrease in cash and cash equivalents	(1,042)	(1,217)
Cash and cash equivalents, beginning of year	2,319	3,863
Cash and cash equivalents, end of period	\$ 1,277	\$ 2,646

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

## NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

<i>\$ in millions, except per share amounts</i>	Three Months Ended March 31	
	2016	2015
<b>Common stock</b>		
Beginning of year	\$ 181	\$ 199
Common stock repurchased	(2)	(5)
Shares issued for employee stock awards and options	2	1
End of period	181	195
<b>Paid-in capital</b>		
Beginning of year	—	—
End of period	—	—
<b>Retained earnings</b>		
Beginning of year	10,661	12,392
Common stock repurchased	(284)	(854)
Net earnings	556	484
Dividends declared	(147)	(142)
Stock compensation	(122)	(37)
End of period	10,664	11,843
<b>Accumulated other comprehensive loss</b>		
Beginning of year	(5,320)	(5,356)
Other comprehensive income, net of tax	96	66
End of period	(5,224)	(5,290)
Total shareholders' equity	\$ 5,621	\$ 6,748
Cash dividends declared per share	\$ 0.80	\$ 0.70

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**NORTHROP GRUMMAN CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**1. BASIS OF PRESENTATION**

**Principles of Consolidation and Reporting**

These unaudited condensed consolidated financial statements include the accounts of Northrop Grumman Corporation and subsidiaries (herein referred to as “Northrop Grumman,” the “company,” “we,” “us,” or “our”). Material intercompany accounts, transactions and profits are eliminated in consolidation. Investments in equity securities and joint ventures where the company has significant influence, but not control, are accounted for using the equity method.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with the rules of the Securities and Exchange Commission (SEC) for interim reporting purposes. These financial statements include adjustments of a normal recurring nature considered necessary by management for a fair presentation of the company’s unaudited condensed consolidated financial position, results of operations and cash flows.

The results reported in these unaudited condensed consolidated financial statements are not necessarily indicative of results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the information contained in the company’s Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Annual Report on Form 10-K) and the Form 8-K that we expect to file with the SEC immediately after filing this Form 10-Q, which recasts the disclosures in certain portions of the 2015 Annual Report on Form 10-K to reflect changes in the company’s organizational structure and reportable segments.

The quarterly information is labeled using a calendar convention; that is, first quarter is consistently labeled as ending on March 31, second quarter as ending on June 30 and third quarter as ending on September 30. It is the company’s long-standing practice to establish actual interim closing dates using a “fiscal” calendar, in which we close our books on a Friday near these quarter-end dates in order to normalize the potentially disruptive effects of quarterly closings on business processes. This practice is only used at interim periods within a reporting year.

**Accounting Estimates**

The accompanying unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation thereof requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of sales and expenses during the reporting period. Estimates have been prepared using the most current and best available information; however, actual results could differ materially from those estimates.

**Revenue Recognition**

The majority of our sales are derived from long-term contracts with the United States (U.S.) Government for the production of goods, the provision of services, or in some cases, a combination of both. In accounting for these contracts, we utilize either the cost-to-cost method or the units-of-delivery method of percentage-of-completion accounting, with cost-to-cost being the predominant method. The company estimates profit on contracts as the difference between total estimated sales and total estimated cost at completion and recognizes that profit either as costs are incurred (cost-to-cost) or as units are delivered (units-of-delivery). The company classifies sales as product or service depending upon the predominant attributes of the contract.

*Net Estimate-At-Completion (EAC) Adjustments* - We recognize changes in estimated contract sales, costs or profits using the cumulative catch-up method of accounting. This method recognizes, in the current period, the cumulative effect of the changes on current and prior periods as net EAC adjustments; sales and profit in future periods of contract performance are recognized as if the revised estimates had been used since contract inception. If it is determined that a loss will result from the performance of a contract, the entire amount of the estimable future loss is charged against income in the period the loss is identified. Loss provisions are first offset against any costs that are included in unbilled accounts receivable or inventoried costs, and any remaining amount is reflected in liabilities.

Significant EAC adjustments on a single contract could have a material effect on the company’s unaudited condensed consolidated financial position or results of operations. Where such adjustments occur, we generally disclose the nature, underlying conditions and financial impact of the adjustments. No discrete event or adjustments to an individual contract were material to the accompanying unaudited condensed consolidated financial statements.

**NORTHROP GRUMMAN CORPORATION**

The following table presents the effect of aggregate net EAC adjustments:

<i>\$ in millions, except per share data</i>	Three Months Ended March 31	
	2016	2015
Operating Income	\$ 129	\$ 187
Net Earnings <sup>(1)</sup>	84	122
Diluted earnings per share <sup>(1)</sup>	0.46	0.61

<sup>(1)</sup> Based on statutory tax rates

Contract sales may include estimated amounts not contractually agreed to by the customer, including cost or performance incentives (such as award and incentive fees), un-priced change orders, contract claims and requests for equitable adjustment (REAs). Further, as contracts are performed, change orders can be a regular occurrence and may be un-priced until negotiated with the customer. Un-priced change orders, contract claims (including change orders unapproved as to both scope and price) and REAs are included in estimated contract sales when management believes it is probable the un-priced change order, claim and/or REA will result in additional contract revenue and the amount can be reliably estimated based on the facts and circumstances known to us at the time. As of March 31, 2016, the company has initiated REAs with the U.S. government and an international customer seeking recovery of approximately \$300 million under contracts related to two Aerospace Systems programs. A substantial portion of the REAs was initiated during the fourth quarter of 2015. The REAs relate to what we believe is work performed by the company at the direction of our customers that is beyond the scope of the related contracts as well as costs incurred by the company as a result of customer-caused delays and disruption. The total amount of additional contract sales we have assumed as of March 31, 2016 is approximately \$225 million. We are currently negotiating the REAs and the terms of the contracts with our customers. Recognized amounts related to claims and REAs as of March 31, 2015 were not material individually or in aggregate.

As of March 31, 2016, the company does not have any contract terminations in process that we anticipate would have a material effect on our unaudited condensed consolidated financial position, or our annual results of operations and/or cash flows.

**Related Party Transactions**

For all periods presented, the company had no material related party transactions.

**Accounting Standards Updates**

On March 30, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The company adopted ASU 2016-09 during the first quarter of 2016. Among other things, the ASU requires that entities recognize excess tax benefits and deficiencies related to employee share-based payment transactions as income tax expense or benefit. The ASU also eliminates the requirement to reclassify excess tax benefits and deficiencies from operating activities to financing activities in the statement of cash flows. As a result of adoption, the company recognized an \$80 million tax benefit as a discrete item during the first quarter of 2016. Adoption also resulted in an \$80 million increase in operating cash flows and a corresponding \$80 million reduction in financing cash flows for the period ended March 31, 2016.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 supersedes existing lease guidance, including Accounting Standards Codification (ASC) 840 - *Leases*. Among other things, the new standard requires recognition of a right-of-use asset and liability for future lease payments for contracts that meet the definition of a lease. ASU 2016-02 will be effective January 1, 2019, although early adoption is permitted. The standard must be applied using a modified retrospective approach. We are currently evaluating the timing of adoption as well as the effect ASU 2016-02 will have on the company's consolidated financial position, annual results of operations and cash flows.

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 supersedes existing revenue recognition guidance, including ASC 605-35, *Revenue Recognition - Construction-Type and Production-Type Contracts*. ASU 2014-09 outlines a single set of comprehensive principles for recognizing revenue under U.S. GAAP. Among other things, it requires companies to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time. These concepts, as well as other aspects of ASU 2014-09, may change the method and/or timing of revenue recognition for certain of our contracts. On July 9, 2015, the FASB approved a one year deferral of the effective date of ASU 2014-09 to



**NORTHROP GRUMMAN CORPORATION**

annual reporting periods beginning after December 15, 2017. ASU 2014-09 may be applied either retrospectively or through the use of a modified-retrospective method. We are currently evaluating both methods of adoption as well as the effect ASU 2014-09 will have on the company's consolidated financial position, annual results of operations and cash flows.

Other accounting standards updates effective after March 31, 2016 are not expected to have a material effect on the company's unaudited condensed consolidated financial position, annual results of operations and/or cash flows.

**Reclassifications**

The company adopted ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, during the first quarter of 2016. As a result, we now present capitalized debt issuance costs as a reduction in the carrying amount of long-term debt. This change resulted in a reclassification of \$30 million and \$27 million of other non-current assets reported in our 2015 and 2014 consolidated statements of financial position to long-term debt, which reduced our previously reported total assets and total liabilities as of December 31, 2015 and 2014.

**Shareholders' Equity**

The company records the difference between the cost of shares repurchased and their par value as well as tax withholding in excess of related stock compensation expense as a reduction of paid-in capital to the extent available and then as a reduction of retained earnings.

**Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss are as follows:

<i>\$ in millions</i>	<b>March 31, 2016</b>	December 31, 2015
Unamortized benefit plan costs, net of tax benefit of \$3,288 as of March 31, 2016 and \$3,350 as of December 31, 2015	\$ (5,140)	\$ (5,241)
Cumulative translation adjustment	(86)	(82)
Net unrealized gain on marketable securities and cash flow hedges, net of tax	2	3
<b>Total accumulated other comprehensive loss</b>	<b>\$ (5,224)</b>	<b>\$ (5,320)</b>

Unamortized benefit plan costs consist primarily of net after-tax actuarial losses totaling \$5.3 billion and \$5.5 billion as of March 31, 2016 and December 31, 2015, respectively. Net actuarial gains or losses are re-determined annually or upon remeasurement events and principally arise from changes in the interest rate used to discount our benefit obligations and differences between expected and actual returns on plan assets.

Reclassifications from accumulated other comprehensive loss to net earnings related to the amortization of benefit plan costs were \$101 million and \$96 million, net of taxes, for the three months ended March 31, 2016 and 2015, respectively. The reclassifications represent the amortization of net actuarial losses and prior service credits for the company's retirement benefit plans, and are included in the computation of net periodic pension cost. See Note 8 for further information.

Reclassifications from accumulated other comprehensive loss to net earnings, relating to cumulative translation adjustments, marketable securities and effective cash flow hedges for the three months ended March 31, 2016 and 2015, respectively, were not material. Reclassifications for cumulative translation adjustments and marketable securities are recorded in other income, and reclassifications for effective cash flow hedges are recorded in operating income.

**2. EARNINGS PER SHARE, SHARE REPURCHASES AND DIVIDENDS ON COMMON STOCK****Basic Earnings Per Share**

We calculate basic earnings per share by dividing net earnings by the weighted-average number of shares of common stock outstanding during each period.

**Diluted Earnings Per Share**

Diluted earnings per share includes the dilutive effect of awards granted to employees under stock-based compensation plans. The dilutive effect of these securities totaled 2.1 million shares and 2.8 million shares for the three months ended March 31, 2016 and 2015, respectively.

**NORTHROP GRUMMAN CORPORATION****Share Repurchases**

On May 15, 2013, the company's board of directors authorized a share repurchase program of up to \$4.0 billion of the company's common stock (2013 Repurchase Program). Repurchases under the 2013 Repurchase Program commenced in September 2013 and were completed in March 2015. On December 4, 2014, the company's board of directors authorized a new share repurchase program of up to \$3.0 billion of the company's common stock (2014 Repurchase Program). Repurchases under the 2014 Repurchase Program commenced in March 2015 and were completed in March 2016.

On September 16, 2015, the company's board of directors authorized a new share repurchase program of up to \$4.0 billion of the company's common stock (2015 Repurchase Program). Repurchases under the 2015 Repurchase Program commenced in March 2016 upon the completion of the company's 2014 Repurchase Program. As of March 31, 2016, repurchases under the 2015 Repurchase Program totaled \$11 million; approximately \$4.0 billion remained under this share repurchase authorization. By its terms, the 2015 Repurchase Program is set to expire when we have used all authorized funds for repurchases.

Share repurchases take place from time to time, subject to market conditions and management's discretion, in the open market or in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs in the periods presented.

The table below summarizes the company's share repurchases to date under the authorizations described above:

Repurchase Program Authorization Date	Amount Authorized (in millions)	Total Shares Retired (in millions)	Average Price Per Share <sup>(1)</sup>	Date Completed	Shares Repurchased (in millions)	
					Three Months Ended March 31 2016	2015
May 15, 2013	\$ 4,000	32.8	\$ 121.97	March 2015	—	2.7
December 4, 2014	\$ 3,000	18.0	\$ 166.70	March 2016	1.4	2.6
September 16, 2015	\$ 4,000	0.1	\$ 198.61		0.1	—

<sup>(1)</sup> Includes commissions paid.

**Dividends on Common Stock**

In May 2015, the company increased the quarterly common stock dividend 14 percent to \$0.80 per share from the previous amount of \$0.70 per share.

**3. SEGMENT INFORMATION**

The company is aligned in three operating sectors, which also comprise our reportable segments: Aerospace Systems, Mission Systems and Technology Services. Effective January 1, 2016, the company streamlined our sectors from four to three to better align our business with the evolving needs of our customers and enhance innovation across the company. Mission Systems and Technology Services were created by merging elements of our former Electronic Systems, Information Systems and Technical Services sectors. The new Mission Systems sector is composed of the majority of our former Electronic Systems sector and the businesses from our former Information Systems sector focused on the development of new capabilities for our military and intelligence customers. The new Technology Services sector was formed by combining the services portfolio in the former Information Systems sector with the former Technical Services sector. Among other operations that were realigned, the military and civil space hardware business in Azusa, California, previously reporting to the Electronic Systems sector, moved to the Aerospace Systems sector, and the electronic attack business, previously in the Aerospace Systems sector, moved to the Mission Systems sector.

**NORTHROP GRUMMAN CORPORATION**

The following table presents sales and operating income by segment:

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
<b>Sales</b>		
Aerospace Systems	\$ 2,574	\$ 2,498
Mission Systems	2,693	2,711
Technology Services	1,214	1,267
Intersegment eliminations	(525)	(519)
Total sales	5,956	5,957
<b>Operating income</b>		
Aerospace Systems	286	312
Mission Systems	353	344
Technology Services	126	133
Intersegment eliminations	(64)	(54)
<b>Total segment operating income</b>	701	735
Reconciliation to total operating income:		
Net FAS/CAS pension adjustment	74	83
Unallocated corporate expenses	(33)	(38)
Other	(3)	—
Total operating income	\$ 739	\$ 780

**Net FAS/CAS Pension Adjustment**

For financial statement purposes, we account for our employee pension plans in accordance with GAAP under FAS (GAAP Financial Accounting Standards). However, the cost of these plans is charged to our contracts in accordance with the Federal Acquisition Regulation (FAR) and the related U.S. Government Cost Accounting Standards (CAS) that govern such plans. The net FAS/CAS pension adjustment reflects the difference between CAS pension expense included as cost in segment operating income and FAS expense determined in accordance with GAAP.

The decrease in net FAS/CAS pension adjustment for the three months ended March 31, 2016, as compared with the same period in 2015, is primarily due to lower than expected asset returns during 2015, partially offset by the increase in our FAS discount rate assumption as of December 31, 2015 and the continued phase-in of the effects of CAS harmonization.

**Unallocated Corporate Expenses**

Unallocated corporate expenses include the portion of corporate expenses not considered allowable or allocable under applicable CAS or the FAR, and therefore not allocated to the segments. Such costs consist of a portion of management and administration, legal, environmental, compensation costs, retiree benefits and certain unallowable costs such as lobbying activities, among others.

Unallocated corporate expenses decreased for the three months ended March 31, 2016, as compared to the same period in 2015, principally due to higher deferred state taxes in 2015 resulting from a \$500 million discretionary pension contribution made in the first quarter of 2015, partially offset by an increase in environmental costs.

**4. INCOME TAXES**

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
Federal and foreign income tax expense	\$ 120	\$ 220
Effective income tax rate	17.8%	31.3%

**NORTHROP GRUMMAN CORPORATION**

The company's effective tax rate for the three months ended March 31, 2016 was lower than the comparable 2015 period principally due to an \$80 million benefit recognized in the first quarter of 2016 resulting from the adoption of ASU No. 2016-09 described in Note 1 and extension of the research tax credit, partially offset by the absence of refund claims filed in 2015.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. Our 2007-2013 tax returns are currently either under Internal Revenue Service examination or appeals. The company believes it is reasonably possible that within the next twelve months, we may resolve certain matters related to the years under examination or appeals, resulting in a reduction of our unrecognized tax benefits up to \$175 million and a reduction of our income tax expense up to \$45 million.

**5. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents comparative carrying value and fair value information for our financial assets and liabilities:

<i>\$ in millions</i>	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets (Liabilities)</b>				
Marketable securities				
Trading	\$ 300	\$ 300	\$ 303	\$ 303
Available-for-sale	6	6	7	7
Derivatives	5	5	5	5
Long-term debt, including current portion	\$ (6,389)	\$ (7,097)	\$ (6,496)	\$ (6,907)

There were no transfers of financial instruments between the three levels of the fair value hierarchy during the three months ended March 31, 2016.

The carrying value of cash and cash equivalents approximates fair value.

**Investments in Marketable Securities**

The company holds a portfolio of marketable securities consisting of securities that are classified as either trading or available-for-sale to partially fund non-qualified employee benefit plans. These assets are recorded at fair value on a recurring basis and substantially all of these instruments are valued using Level 1 inputs, with an immaterial amount valued using Level 2 inputs. As of March 31, 2016 and December 31, 2015, marketable securities of \$306 million and \$310 million, respectively, were included in other non-current assets in the unaudited condensed consolidated statements of financial position.

**Derivative Financial Instruments and Hedging Activities**

The company's derivative portfolio consists primarily of foreign currency forward contracts. The notional value of the company's derivative portfolio at March 31, 2016 and December 31, 2015, was \$129 million and \$141 million, respectively. The portion of the notional value designated as cash flow hedges at March 31, 2016 and December 31, 2015, was \$7 million and \$10 million, respectively. Substantially all of these instruments are valued using Level 2 inputs. Where model-derived valuations are appropriate, the company utilizes the income approach to determine the fair value and uses the applicable London Interbank Offered Rate (LIBOR) swap rates. The derivative fair values and related unrealized gains/losses at March 31, 2016 and December 31, 2015, were not material.

**Long-term Debt**

The fair value of long-term debt is calculated using Level 2 inputs based on interest rates available for debt with terms and maturities similar to the company's existing debt arrangements.

*Unsecured Senior Notes*

In February 2015, the company issued \$600 million of unsecured senior notes due April 15, 2045 with a fixed interest rate of 3.85 percent. We used the net proceeds from this offering for general corporate purposes, including the funding of a \$500 million voluntary contribution to our pension plans in the first quarter of 2015 and a debt repayment of \$107 million in the first quarter of 2016.

**NORTHROP GRUMMAN CORPORATION**

**6. INVESTIGATIONS, CLAIMS AND LITIGATION**

**Litigation**

On May 4, 2012, the company commenced an action, *Northrop Grumman Systems Corp. v. United States*, in the U.S. Court of Federal Claims. This lawsuit relates to an approximately \$875 million firm fixed price contract awarded to the company in 2007 by the U.S. Postal Service (USPS) for the construction and delivery of flats sequencing systems (FSS) as part of the postal automation program. The FSS have been delivered. The company's lawsuit is based on various theories of liability. The complaint seeks approximately \$63 million for unpaid portions of the contract price, and approximately \$115 million based on the company's assertions that, through various acts and omissions over the life of the contract, the USPS adversely affected the cost and schedule of performance and materially altered the company's obligations under the contract. The United States responded to the company's complaint with an answer, denying most of the company's claims and counterclaims, seeking approximately \$410 million, less certain amounts outstanding under the contract. The principal counterclaim alleges that the company delayed its performance and caused damages to the USPS because USPS did not realize certain costs savings as early as it had expected. On April 2, 2013, the U.S. Department of Justice informed the company of a False Claims Act complaint relating to the FSS contract that was filed under seal by a relator in June 2011 in the U.S. District Court for the Eastern District of Virginia. On June 3, 2013, the United States filed a Notice informing the Court that the United States had decided not to intervene in this case. The relator alleged that the company violated the False Claims Act in a number of ways with respect to the FSS contract, alleged damage to the USPS in an amount of at least approximately \$179 million annually, alleged that he was improperly discharged in retaliation, and sought an unspecified partial refund of the contract purchase price, penalties, attorney's fees and other costs of suit. The relator later voluntarily dismissed his retaliation claim and reasserted it in a separate arbitration, which he also ultimately voluntarily dismissed. On September 5, 2014, the court granted the company's motion for summary judgment and ordered the relator's False Claims Act case be dismissed with prejudice. On December 19, 2014, the company filed a motion for partial summary judgment asking the court to dismiss the principal counterclaim referenced above. On June 29, 2015, the Court heard argument and denied that motion without prejudice to filing a later motion to dismiss. Although the ultimate outcome of these matters ("the FSS matters," collectively), including any possible loss, cannot be predicted or estimated at this time, the company intends vigorously to pursue and defend the FSS matters.

On August 8, 2013, the company received a court-appointed expert's report in litigation pending in the Second Federal Court of the Federal District in Brazil brought by the Brazilian Post and Telegraph Corporation (ECT), a Brazilian state-owned entity, against Solystic SAS (Solystic), a French subsidiary of the company, and two of its consortium partners. In this suit, commenced on December 17, 2004, and relatively inactive for some period of time, ECT alleges the consortium breached its contract with ECT and seeks damages of approximately R\$111 million (the equivalent of approximately \$31 million as of March 31, 2016), plus interest, inflation adjustments and attorneys' fees, as authorized by Brazilian law, which amounts could be significant over time. The original suit sought R\$89 million (the equivalent of approximately \$24 million as of March 31, 2016) in damages. In October 2013, ECT asserted an additional damage claim of R\$22 million (the equivalent of approximately \$6 million as of March 31, 2016). In its counterclaim, Solystic alleges ECT breached the contract by wrongfully refusing to accept the equipment Solystic had designed and built and seeks damages of approximately €31 million (the equivalent of approximately \$35 million as of March 31, 2016), plus interest, inflation adjustments and attorneys' fees, as authorized by Brazilian law. The Brazilian court retained an expert to consider certain issues pending before it. On August 8, 2013 and September 10, 2014, the company received reports from the expert, which contain some recommended findings relating to liability and the damages calculations put forth by ECT. Some of the expert's recommended findings were favorable to the company and others were favorable to ECT. In November 2014, the parties submitted comments on the expert's most recent report. On June 16, 2015, the court published a decision denying the parties' request to present oral testimony. At some future point, the court is expected to issue a decision on the parties' claims and counterclaims that could accept or reject, in whole or in part, the expert's recommended findings.

The company is one of several defendants in litigation brought by the Orange County Water District in Orange County Superior Court in California on December 17, 2004, for alleged contribution to volatile organic chemical contamination of the County's shallow groundwater. The lawsuit includes counts against the defendants for violation of the Orange County Water District Act, the California Super Fund Act, negligence, nuisance, trespass and declaratory relief. Among other things, the lawsuit seeks unspecified damages for the cost of remediation, payment of attorney fees and costs, and punitive damages. Trial on the statutory claims (those based on the Orange County Water District Act, the California Super Fund Act and declaratory relief) concluded on September 25, 2012. On October 29, 2013, the court issued its decision in favor of the defendants on the statutory claims. On May 9, 2014,

**NORTHROP GRUMMAN CORPORATION**

the court granted defendants' dispositive motions on the remaining tort causes of action. Notice of entry of judgment was filed on July 1, 2014. The Orange County Water District filed a notice of appeal on August 28, 2014. The Orange County Water District filed its opening brief on October 14, 2015. The company has filed its response. The Orange County Water District's reply is currently due in the second quarter of 2016.

The company is a party to various investigations, lawsuits, claims and other legal proceedings, including government investigations and claims, that arise in the ordinary course of our business. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. However, based on information available to the company to date, and other than with respect to the FSS matters discussed separately above, the company does not believe that the outcome of any matter pending against the company is likely to have a material adverse effect on the company's unaudited condensed consolidated financial position as of March 31, 2016, or its annual results of operations or cash flows.

**7. COMMITMENTS AND CONTINGENCIES****Guarantees of Subsidiary Performance Obligations**

From time to time in the ordinary course of business, the company guarantees obligations of its subsidiaries under certain contracts. Generally, the company is liable under such an arrangement only if its subsidiary is unable to perform under its contract. Historically, the company has not incurred any substantial liabilities resulting from these guarantees.

In addition, the company's subsidiaries may enter into joint ventures, teaming and other business arrangements (collectively, Business Arrangements) to support our products and services in U.S. and international markets. The company generally strives to limit its exposure under these arrangements to its subsidiary's investment in the Business Arrangements or to the extent of such subsidiary's obligations under the applicable contract. In some cases, however, the company may be required to guarantee performance by the Business Arrangements and, in such cases, the company generally strives to obtain cross-indemnification from the other members of the Business Arrangements.

At March 31, 2016, the company is not aware of any existing event of default that would require it to satisfy any of these guarantees.

**U.S. Government Cost Claims**

From time to time, the company is advised of claims by the U.S. Government concerning certain potential disallowed costs, plus, at times, penalties and interest. When such findings are presented, the company and the U.S. Government representatives engage in discussions to enable the company to evaluate the merits of these claims, as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect the company's estimated exposure for matters raised by the U.S. Government. Such provisions are reviewed periodically using the most recent information available. The company believes it has adequately reserved for disputed amounts that are probable and estimable, and the outcome of any such matters would not have a material adverse effect on its unaudited condensed consolidated financial position as of March 31, 2016, or its annual results of operations and/or cash flows.

**Environmental Matters**

The table below summarizes management's estimate of the range of reasonably possible future costs for environmental remediation, the amount accrued within that range, and the deferred costs expected to be recoverable through overhead charges on U.S. Government contracts as of March 31, 2016 and December 31, 2015:

<i>\$ in millions</i>	Range of Reasonably Possible Future Costs <sup>(1)</sup>	Accrued Costs <sup>(2)</sup>	Deferred Costs <sup>(3)</sup>
<b>March 31, 2016</b>	<b>\$364 - \$808</b>	<b>\$ 377</b>	<b>\$ 192</b>
December 31, 2015	353 - 812	370	186

<sup>(1)</sup> The range of reasonably possible future costs does not take into consideration amounts expected to be recoverable through overhead charges on U.S. Government contracts.

<sup>(2)</sup> As of March 31, 2016, \$110 million is recorded in other current liabilities and \$267 million is recorded in other non-current liabilities.

<sup>(3)</sup> As of March 31, 2016, \$62 million is deferred in inventoried costs and \$130 million is deferred in other non-current assets. These amounts are evaluated for recoverability on a routine basis.

**NORTHROP GRUMMAN CORPORATION**

Although management cannot predict whether new information gained as our environmental remediation projects progress, or as changes in facts and circumstances occur, will materially affect the estimated liability accrued, we do not anticipate future remediation expenditures associated with our currently identified projects will have a material adverse effect on the company's unaudited condensed consolidated financial position as of March 31, 2016, or its annual results of operations and/or cash flows.

**Financial Arrangements**

In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued principally by insurance companies to guarantee the performance on certain obligations. At March 31, 2016, there were \$238 million of stand-by letters of credit and guarantees and \$150 million of surety bonds outstanding.

**Indemnifications**

The company has retained certain environmental, income tax and other potential liabilities in connection with certain of its divestitures. The settlement of these liabilities is not expected to have a material adverse effect on the company's unaudited condensed consolidated financial position as of March 31, 2016, or its annual results of operations and/or cash flows.

**Operating Leases**

Rental expense for operating leases was \$91 million and \$81 million for the three months ended March 31, 2016 and 2015, respectively. These amounts are net of immaterial amounts of sublease rental income.

**Credit Facility**

The company maintains an unsecured credit facility in an aggregate principal amount of \$1.6 billion (the "Credit Agreement") that matures in July 2020. At March 31, 2016, the company was in compliance with all covenants under the Credit Agreement and there was no balance outstanding.

**8. RETIREMENT BENEFITS**

The cost to the company of its retirement plans is shown in the following table:

<i>\$ in millions</i>	Three Months Ended March 31			
	Pension Benefits		Medical and Life Benefits	
	2016	2015	2016	2015
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 112	\$ 121	\$ 8	\$ 9
Interest cost	321	306	24	24
Expected return on plan assets	(463)	(494)	(21)	(22)
Amortization of:				
Prior service credit	(15)	(15)	(6)	(7)
Net loss from previous years	178	171	3	6
<b>Net periodic benefit cost</b>	<b>\$ 133</b>	<b>\$ 89</b>	<b>\$ 8</b>	<b>\$ 10</b>

**Employer Contributions**

The company sponsors defined benefit pension and post-retirement plans, as well as defined contribution plans. We fund our defined benefit pension plans annually in a manner consistent with the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006. Additionally, in the first quarter of 2015, we made a voluntary pension contribution of \$500 million.

**NORTHROP GRUMMAN CORPORATION**

Contributions made by the company to its retirement plans are as follows:

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
Defined benefit pension plans	\$ 27	\$ 525
Medical and life benefit plans	11	6
Defined contribution plans	87	85

**9. STOCK COMPENSATION PLANS AND OTHER COMPENSATION ARRANGEMENTS****Stock Awards**

The following table presents the number of restricted stock rights (RSRs) and restricted performance stock rights (RPSRs) granted to employees under the company's long-term incentive stock plan and the grant date aggregate fair value of those stock awards for the periods presented:

<i>in millions</i>	Three Months Ended March 31	
	2016	2015
RSRs granted	0.2	0.2
RPSRs granted	0.3	0.4
Grant date aggregate fair value	\$ 87	\$ 87

RSRs typically vest on the third anniversary of the grant date, while RPSRs generally vest and pay out based on the achievement of financial metrics for the three-year period beginning January 1 of the year of grant.

**Cash Awards**

The following table presents the minimum and maximum aggregate payout amounts related to cash units (CUs) and cash performance units (CPUs) granted to employees in the periods presented:

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
Minimum aggregate payout amount	\$ 34	\$ 34
Maximum aggregate payout amount	193	190

CUs typically vest and settle in cash on the third anniversary of the grant date, while CPUs generally vest and pay out in cash based on the achievement of financial metrics for a three-year period beginning January 1 of the year of grant.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Northrop Grumman Corporation  
Falls Church, Virginia

We have reviewed the accompanying condensed consolidated statement of financial position of Northrop Grumman Corporation (the "Corporation") and subsidiaries as of March 31, 2016, and the related condensed consolidated statements of earnings and comprehensive income, cash flows, and changes in shareholders' equity for the three-month periods ended March 31, 2016 and 2015. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2015, and the related consolidated statements of earnings and comprehensive income (loss), cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated February 1, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP  
McLean, Virginia  
April 26, 2016

**NORTHROP GRUMMAN CORPORATION**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**OVERVIEW**

Northrop Grumman Corporation (herein referred to as "Northrop Grumman," the "company," "we," "us," or "our") is a leading global security company. We offer a broad portfolio of capabilities and technologies that enable us to deliver innovative products, systems and solutions for applications that range from undersea to outer space and into cyberspace. We provide products, systems and solutions in autonomous systems; cyber; command, control, communications and computers (C4), intelligence, surveillance and reconnaissance (C4ISR); strike aircraft; and logistics and modernization to government and commercial customers worldwide. We participate in many high-priority defense and government programs in the United States (U.S.) and abroad. We conduct most of our business with the U.S. Government, principally the Department of Defense (DoD) and intelligence community. We also conduct business with foreign, state and local governments and commercial customers.

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Form 10-Q, as well as our 2015 Annual Report on Form 10-K and the Form 8-K that we expect to file with the SEC immediately after filing this Form 10-Q, which recasts the disclosures in certain portions of the 2015 Annual Report on Form 10-K to reflect changes in the company's organizational structure and reportable segments. See further discussions in the Consolidated Operating Results and Segment Operating Results sections that follow.

**Political and Economic Environment**

The following is an update of events relating to the company's political and economic environment since the filing of our 2015 Annual Report on Form 10-K.

On February 9, 2016, the President delivered his FY 2017 budget to Congress. The FY 2017 budget reflects the FY 2017 spending caps established in the Bipartisan Budget Act of 2015 and requests \$524 billion for the DoD's annual budget and an additional \$59 billion for Overseas Contingency Operations. Congress is in the process of considering appropriations bills for FY 2017. It is unclear when or if annual appropriations bills will be enacted for FY 2017. The U.S. Government may operate under a continuing resolution for some or all of FY 2017, restricting new contract or program starts for that year and placing limitations on some planned program budgets, and we may face a government shutdown of unknown duration.

**Operating Performance Assessment and Reporting**

We manage and assess our business based on our performance on contracts and programs (typically two or more closely-related contracts). We recognize sales from our portfolio of long-term contracts primarily using the cost-to-cost method of percentage of completion accounting, but in some cases we utilize the units-of-delivery method of percentage of completion accounting. As a result, sales tend to fluctuate in concert with costs incurred across our large portfolio of contracts. Due to Federal Acquisition Regulation (FAR) rules that govern our U.S. Government business and related Cost Accounting Standards (CAS), most types of costs are allocable to U.S. Government contracts. As such, we do not focus on individual cost groupings (such as manufacturing, engineering and design labor costs, subcontractor costs, material costs, overhead costs and general and administrative costs), as much as we do on total contract cost, which is the key driver of our sales and operating income.

In evaluating our operating performance, we look primarily at changes in sales and operating income, including the effects of meaningful changes in operating income as a result of changes in contract estimates. Where applicable, significant fluctuations in operating performance attributable to individual contracts or programs, or changes in a specific cost element across multiple contracts, are described in our analysis. Based on this approach and the nature of our operations, the discussion below of results of operations first focuses on our three segments before distinguishing between products and services. Changes in sales are generally described in terms of volume, deliveries or other indicators of sales activity, and contract mix. For purposes of this discussion, volume generally refers to increases or decreases in sales or cost from production/service activity levels or delivery rates. Performance generally refers to changes in estimates-at-completion (EACs) for contract operating margin rates during the period (net EAC adjustments), as well as the continuing effect of prior net EAC adjustments.

**NORTHROP GRUMMAN CORPORATION****CONSOLIDATED OPERATING RESULTS**

Selected financial highlights are presented in the table below:

<i>\$ in millions, except per share amounts</i>	Three Months Ended March 31		% Change
	2016	2015	
Sales	\$ 5,956	\$ 5,957	—
Operating costs and expenses	5,217	5,177	1 %
Operating income	739	780	(5)%
<i>Operating margin rate</i>	12.4%	13.1%	
Federal and foreign income tax expense	120	220	(45)%
<i>Effective income tax rate</i>	17.8%	31.3%	
Net earnings	556	484	15 %
Diluted earnings per share	3.03	2.41	26 %
Net cash used in operating activities	\$ (60)	\$ (654)	\$ (91)%

**Sales**

Sales for the three months ended March 31, 2016 were comparable to the same period in 2015. Higher sales at Aerospace Systems were offset by lower sales at Technology Services and Mission Systems.

See Segment Operating Results below for further information by segment and the Product and Service Analysis section that follows Segment Operating Results for product and service detail.

**Operating Costs and Expenses**

Operating costs and expenses primarily comprise labor, material, subcontractor and overhead costs, and are generally allocated to contracts as incurred. In accordance with industry practice and the regulations that govern cost accounting requirements for government contracts, most general management and corporate expenses incurred at the segment and corporate locations are considered allowable and allocable costs. Allowable and allocable general and administrative costs, including independent research and development (IR&D) and certain bid and proposal costs, are allocated on a systematic basis to contracts in progress.

Operating costs and expenses comprise the following:

<i>\$ in millions</i>	Three Months Ended March 31		% Change
	2016	2015	
Product costs	\$ 2,611	\$ 2,542	3 %
Service costs	1,950	2,000	(3)%
General and administrative expenses	656	635	3 %
Operating costs and expenses	\$ 5,217	\$ 5,177	1 %
Operating costs and expenses as a % of sales	87.6%	86.9%	

Operating costs and expenses as a percentage of sales increased for the three months ended March 31, 2016 as compared with the same period in 2015, which decreased our operating margin rate to 12.4 percent from 13.1 percent in the prior year period. The increase in operating costs and expenses as a percentage of sales was driven by \$34 million of lower segment operating income, as described in the Segment Operating Results section below, and a \$9 million decrease in our net FAS (GAAP Financial Accounting Standards)/CAS pension adjustment, as described in Note 3 to the unaudited condensed consolidated financial statements in Part I, Item 1.

General and administrative expenses as a percentage of sales for the three months ended March 31, 2016 increased to 11.0 percent from 10.7 percent in the prior year period, principally due to an increase in IR&D as we continue to invest in future business opportunities.

For further information regarding product and service sales and costs, see the Product and Service Analysis section that follows Segment Operating Results.

## NORTHROP GRUMMAN CORPORATION

### **Operating Income and Margin Rate**

We define operating income as sales less operating costs and expenses, which includes general and administrative expenses. Operating margin rate is defined as operating income as a percentage of sales.

Operating income for the three months ended March 31, 2016 decreased \$41 million, or 5 percent, as compared with the same period in 2015, and operating margin rate decreased to 12.4 percent from 13.1 percent in the prior year period, primarily due to the higher operating costs and expenses described above.

### **Federal and Foreign Income Taxes**

The company's effective tax rate for the three months ended March 31, 2016 was 17.8 percent as compared with 31.3 percent in the prior period and reflects an \$80 million benefit recognized in the first quarter of 2016 resulting from the adoption of Accounting Standards Update No. 2016-09, as described in Note 1 to the unaudited condensed consolidated financial statements in Part I, Item 1, and extension of the research tax credit, partially offset by the absence of refund claims filed in 2015.

### **Net Earnings**

Net earnings for the three months ended March 31, 2016 increased \$72 million, or 15 percent, as compared with the same period in 2015, principally due to the lower effective tax rate discussed above, partially offset by lower segment operating income, which is discussed in Segment Operating Results below.

### **Diluted Earnings Per Share**

Diluted earnings per share for the three months ended March 31, 2016 increased \$0.62, or 26 percent, as compared with the same period in 2015, reflecting higher net earnings and lower weighted-average shares outstanding resulting from shares repurchased during 2015 and 2016.

### **Net Cash from Operating Activities**

See "Operating Cash Flow" in the Liquidity and Capital Resources section below for further information on net cash used in operating activities.

## SEGMENT OPERATING RESULTS

### **Basis of Presentation**

At March 31, 2016, the company was aligned in three operating sectors, which also comprise our reportable segments: Aerospace Systems, Mission Systems, and Technology Services. Effective January 1, 2016, the company streamlined our sectors from four to three to better align our business with the evolving needs of our customers and enhance innovation across the company. Mission Systems and Technology Services were created by merging elements of our former Electronic Systems, Information Systems and Technical Services sectors. The new Mission Systems sector is composed of the majority of our former Electronic Systems sector and the businesses from our former Information Systems sector focused on the development of new capabilities for our military and intelligence customers. The new Technology Services sector was formed by combining the services portfolio in the former Information Systems sector with the former Technical Services sector. Among other operations that were realigned, the military and civil space hardware business in Azusa, California, previously reporting to the Electronic Systems sector, moved to the Aerospace Systems sector, and the electronic attack business previously in the Aerospace Systems sector moved to the Mission Systems sector. This realignment is reflected in the accompanying financial information.

**NORTHROP GRUMMAN CORPORATION**

Our sectors provide products and services in the following business areas, which are presented in a manner reflecting core capabilities:

<b>Aerospace Systems</b>	<b>Mission Systems</b>	<b>Technology Services</b>
Autonomous Systems	Sensors and Processing	Global Logistics and Modernization
Manned Aircraft	Cyber and ISR	Advanced Defense Services
Space	Advanced Capabilities	System Modernization and Services

This section discusses segment sales, operating income and operating margin rates. A reconciliation of segment sales to total sales is provided in Note 3 to the unaudited condensed consolidated financial statements in Part I, Item 1. A reconciliation of segment operating income to total operating income, as well as a discussion of the reconciling items, is provided in Note 3 to the unaudited condensed consolidated financial statements in Part I, Item 1. For purposes of the discussion in this Segment Operating Results section, references to operating income and operating margin rate reflect segment operating income and segment operating margin rate.

**Segment Operating Income and Margin Rate**

Segment operating income, as reconciled in the Reconciliation of Segment Operating Income to Total Operating Income table below, is a non-GAAP measure and is used by management as an internal measure for financial performance of our operating segments. Segment operating income reflects total earnings from our three segments including allocated pension expense recognized under CAS, and excludes unallocated corporate items, including FAS pension expense.

<i>\$ in millions</i>	Three Months Ended March 31		% Change
	2016	2015	
Segment operating income	\$ 701	\$ 735	(5)%
Segment operating margin rate	11.8%	12.3%	

Segment operating income for the three months ended March 31, 2016 decreased \$34 million, or 5 percent, as compared with the same period in 2015, and segment operating margin rate decreased to 11.8 percent from 12.3 percent. Segment operating income and segment operating margin rate declined principally due to lower margins at Aerospace Systems as described below.

*Net EAC Adjustments* - We record changes in estimated contract operating income at completion (net EAC adjustments) using the cumulative catch-up method of accounting. In aggregate, net EAC adjustments can have a significant effect on reported sales and operating income and are presented in the table below:

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
Favorable EAC adjustments	\$ 200	\$ 290
Unfavorable EAC adjustments	(71)	(103)
Net EAC adjustments	\$ 129	\$ 187

Net EAC adjustments by segment are presented in the table below:

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
Aerospace Systems	\$ 59	\$ 111
Mission Systems	55	56
Technology Services	21	23
Eliminations	(6)	(3)
Net EAC adjustments	\$ 129	\$ 187

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*Reconciliation of Segment Operating Income to Total Operating Income* - The table below reconciles segment operating income to total operating income by including the impact of net FAS/CAS pension adjustments, as well as unallocated corporate expenses (certain corporate-level expenses, which are not considered allowable or allocable under applicable CAS or the FAR). See Note 3 to the unaudited condensed consolidated financial statements in Part I, Item 1 for further information on the net FAS/CAS pension adjustment and unallocated corporate expenses.

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
Segment operating income	\$ 701	\$ 735
CAS pension expense	207	172
Less: FAS pension expense	(133)	(89)
Net FAS/CAS pension adjustment	74	83
Unallocated corporate expenses	(33)	(38)
Other	(3)	—
Total operating income	\$ 739	\$ 780

**AEROSPACE SYSTEMS**

<i>\$ in millions</i>	Three Months Ended March 31		% Change
	2016	2015	
Sales	\$ 2,574	\$ 2,498	3 %
Operating income	286	312	(8)%
Operating margin rate	11.1%	12.5%	

Aerospace Systems sales for the three months ended March 31, 2016 increased \$76 million, or 3 percent, as compared with the same period in 2015. The increase was due to higher volume on Manned Aircraft and Autonomous Systems programs. Manned Aircraft sales increased primarily due to the transition to full rate production on the E-2D Advanced Hawkeye program and increased deliveries on the F-35 program, partially offset by lower volume on the B-2 program and fewer F/A-18 deliveries as the program ramps down. Autonomous Systems sales increased primarily due to higher volume on the Global Hawk and Triton programs, partially offset by a ramp-down on the NATO Alliance Ground Surveillance (AGS) program.

Operating income for the three months ended March 31, 2016 decreased \$26 million, or 8 percent, and operating margin rate decreased to 11.1 percent from 12.5 percent. Operating income and margin rate decreased due to lower margins on several Manned Aircraft programs, principally due to the timing of risk reductions, which more than offset the higher sales volume described above.

**MISSION SYSTEMS**

<i>\$ in millions</i>	Three Months Ended March 31		% Change
	2016	2015	
Sales	\$ 2,693	\$ 2,711	(1)%
Operating income	353	344	3 %
Operating margin rate	13.1%	12.7%	

Mission Systems sales for the three months ended March 31, 2016 decreased \$18 million, or 1 percent, as compared with the same period in 2015. The decrease was due to lower volume on Cyber and ISR programs, partially offset by higher volume on Sensors and Processing and Advanced Capabilities programs. Cyber and ISR sales reflect lower volume on the Counter Narcoterrorism Technology program and restricted programs. Sensors and Processing sales increased primarily due to higher volume on fixed wing avionics and C4ISR programs and production ramp-up on the G/ATOR program, partially offset by lower volume on international programs. Advanced Capabilities sales

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**NORTHROP GRUMMAN CORPORATION**

increased primarily due to ramp-up on a number of navigation and maritime programs, including the Surface Electronic Warfare Improvement Program (SEWIP) Block III.

Operating income for the three months ended March 31, 2016 increased \$9 million, or 3 percent, and operating margin rate increased to 13.1 percent from 12.7 percent. Operating income and margin rate increased primarily due to higher margins on Advanced Capabilities programs, partially offset by lower margins on Cyber and ISR programs.

**TECHNOLOGY SERVICES**

<i>\$ in millions</i>	Three Months Ended March 31		% Change
	2016	2015	
Sales	\$ 1,214	\$ 1,267	(4)%
Operating income	126	133	(5)%
<i>Operating margin rate</i>	10.4%	10.5%	

Technology Services sales for the three months ended March 31, 2016 decreased \$53 million, or 4 percent, as compared with the same period in 2015. The decrease was principally due to lower volume on Global Logistics and Modernization (GLM) and Advanced Defense Services (ADS) programs. GLM sales decreased mainly due to ramp-down on the Intercontinental Ballistic Missile (ICBM) program and lower volume on restricted programs. ADS sales declined primarily due to lower volume as a result of program completions in 2015, partially offset by the ramp-up on the Passenger Systems Program Directorate program and higher volume on the Saudi Arabian Ministry of National Guard Training Support program (through our interest in a joint venture for which we consolidate the financial results).

Operating income for the three months ended March 31, 2016 decreased \$7 million, or 5 percent, as compared with the same period in 2015, and operating margin rate was comparable between periods. The decline in operating income was primarily due to the lower sales volume described above.

**PRODUCT AND SERVICE ANALYSIS**

The following table presents product and service sales and operating costs and expenses by segment:

<i>\$ in millions</i>	Three Months Ended March 31			
	2016		2015	
<b>Segment Information:</b>	Sales	Operating Costs and Expenses	Sales	Operating Costs and Expenses
<b>Aerospace Systems</b>				
Product	\$ 2,091	\$ 1,851	\$ 1,958	\$ 1,726
Service	483	437	540	460
<b>Mission Systems</b>				
Product	1,538	1,344	1,611	1,388
Service	1,155	996	1,100	979
<b>Technology Services</b>				
Product	80	71	94	81
Service	1,134	1,017	1,173	1,053
<b>Segment Totals</b>				
Total Product	\$ 3,709	\$ 3,266	\$ 3,663	\$ 3,195
Total Service	2,772	2,450	2,813	2,492
Intersegment eliminations	(525)	(461)	(519)	(465)
<b>Total segment<sup>(1)</sup></b>	<b>\$ 5,956</b>	<b>\$ 5,255</b>	<b>\$ 5,957</b>	<b>\$ 5,222</b>

<sup>(1)</sup> The reconciliation of segment operating income to total operating income, as well as a discussion of the reconciling items, is included in Note 3 to the unaudited condensed consolidated financial statements in Part I, Item 1.

**Product Sales and Costs**

Product sales for the three months ended March 31, 2016 increased \$46 million, or 1 percent, as compared with the same period in 2015. The increase was driven primarily by higher product sales at Aerospace Systems, partially offset by lower product sales at Mission Systems. The increase at Aerospace Systems was primarily due to higher volume on Manned Aircraft and Autonomous Systems programs. The decrease at Mission Systems was primarily due to lower volume on restricted and international programs, partially offset by ramp-up on the G/ATOR program.

**NORTHROP GRUMMAN CORPORATION**

Product costs for the three months ended March 31, 2016 increased \$71 million, or 2 percent, as compared with the same period in 2015. The increase was principally driven by the increase in product sales described above and lower margins on product sales at Mission Systems.

**Service Sales and Costs**

Service sales for the three months ended March 31, 2016 decreased \$41 million, or 1 percent, as compared with the same period in 2015. The decrease was primarily due to lower service sales at Aerospace Systems and Technology Services, partially offset by higher service sales at Mission Systems. The decrease at Aerospace Systems was primarily due to lower volume on restricted programs. The decrease at Technology Services was mainly due to ramp-down on the ICBM program. The increase at Mission Systems was primarily due to higher volume and ramp-up on certain Sensors and Processing programs.

Service costs for the three months ended March 31, 2016 decreased \$42 million, or 2 percent, as compared with the same period in 2015. The decrease was primarily driven by the decrease in service sales described above as well as higher margins on service sales at Mission Systems, partially offset by lower margins on service sales at Aerospace Systems.

**BACKLOG**

Total backlog includes both funded backlog (firm orders for which funding is authorized and appropriated) and unfunded backlog. Unexercised contract options and indefinite delivery indefinite quantity (IDIQ) contracts are not included in backlog until the time the option or IDIQ task order is exercised or awarded. For multi-year service contracts with non-U.S. Government customers having no stated contract values, backlog includes only the amounts committed by the customer. Backlog is converted into sales as costs are incurred or deliveries are made.

During the first quarter of 2016, the company's total backlog increased and reflects higher backlog at Aerospace Systems and Mission Systems and a modest decline in backlog at Technology Services. The company recorded various awards during the quarter, including a portion of the B-21 Long-Range Strike Bomber program.

**LIQUIDITY AND CAPITAL RESOURCES**

We endeavor to ensure the most efficient conversion of operating income into cash for deployment in our business and to maximize shareholder value. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including cash used in operating activities, free cash flow, net debt-to-equity and net debt-to-capital ratios. We believe these measures are useful to investors in assessing our financial performance and condition.

Cash balances and cash generated from operating activities, supplemented by borrowings under credit facilities and/or in the capital markets, if needed, are expected to be sufficient to fund our operations for at least the next 12 months.

**Operating Cash Flow**

The table below summarizes key components of cash flow used in operating activities:

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
Net earnings	\$ 556	\$ 484
Non-cash items <sup>(1)</sup>	82	222
Changes in assets and liabilities:		
Trade working capital	(797)	(908)
Retiree benefits	105	(440)
Other, net	(6)	(12)
Net cash used in operating activities	\$ (60)	\$ (654)

<sup>(1)</sup> Includes depreciation and amortization, stock based compensation expense (including related excess tax benefits in 2015) and deferred income taxes.

Net cash used in operating activities for the three months ended March 31, 2016 decreased by \$594 million, or 91 percent, as compared with the same period in 2015, principally due to a \$500 million voluntary pre-tax pension contribution made in the first quarter of 2015, changes in trade working capital and the impact of the adoption of



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ASU No. 2016-09 described in Note 1 to the unaudited condensed consolidated financial statements in Part I, Item 1.

**Free Cash Flow**

We define free cash flow as cash used in operating activities less capital expenditures. We believe free cash flow is a useful measure for investors to consider as it represents cash flow the company has available after capital spending to invest for future growth, strengthen the balance sheet and/or return to shareholders through dividends and share repurchases. Free cash flow is a key factor in our planning for and consideration of strategic acquisitions, the payment of dividends and stock repurchases.

Free cash flow is not a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP as indicators of performance.

The table below reconciles cash used in operating activities to free cash flow:

<i>\$ in millions</i>	Three Months Ended March 31	
	2016	2015
Net cash used in operating activities	\$ (60)	\$ (654)
Less: capital expenditures	(298)	(117)
Free cash flow	\$ (358)	\$ (771)

Free cash flow for the three months ended March 31, 2016 increased \$413 million, as compared with the same period in 2015, principally due to the decrease in net cash used in operating activities described above, partially offset by higher capital expenditures, including \$159 million for the purchase of a facility previously leased by the Mission Systems sector.

**Investing Cash Flow**

Net cash used in investing activities for the three months ended March 31, 2016 increased as compared with the same period in 2015 principally due to higher capital expenditures, including the \$159 million purchase of a facility described above.

**Financing Cash Flow**

Net cash used in financing activities for the three months ended March 31, 2016 increased as compared with the same period in 2015 primarily due to \$600 million of net proceeds from our issuance of unsecured senior notes in 2015, a debt repayment of \$107 million in 2016, and the impact of the adoption of ASU No. 2016-09 described in Note 1 to the unaudited condensed consolidated financial statements in Part I, Item 1. These increases were partially offset by lower share repurchases.

*Unsecured Senior Notes* - See Note 5 to the unaudited condensed consolidated financial statements in Part I, Item 1 for further information on our unsecured senior notes.

*Credit Facility and Financial Arrangements* - See Note 7 to the unaudited condensed consolidated financial statements in Part I, Item 1 for further information on our credit facility and our use of standby letters of credit and guarantees.

*Share Repurchases* - See Note 2 to the unaudited condensed consolidated financial statements in Part I, Item 1 for further information on our share repurchase programs.

**CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS**

There have been no material changes to our critical accounting policies, estimates or judgments from those discussed in our 2015 Annual Report on Form 10-K.

**ACCOUNTING STANDARDS UPDATES**

See Note 1 to our unaudited condensed consolidated financial statements in Part I, Item 1.

**FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

This Form 10-Q and the information we are incorporating by reference contains statements, other than statements of historical fact, that constitute “forward-looking statements” within the meaning of the Private Securities Litigation

## **NORTHROP GRUMMAN CORPORATION**

Reform Act of 1995. Words such as “expect,” “intend,” “may,” “could,” “plan,” “project,” “forecast,” “believe,” “estimate,” “outlook,” “anticipate,” “trends,” “goals,” and similar expressions generally identify these forward-looking statements.

Forward-looking statements include, among other things, statements relating to our future financial condition, results of operations and cash flows. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made, but which may change over time. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific risks that could cause actual results to differ materially from those expressed or implied in these forward-looking statements include, but are not limited to, those identified and discussed more fully in the section entitled “Risk Factors” in our 2015 Annual Report on Form 10-K. They include:

- our dependence on a single customer, the U.S. Government
- delays or reductions in appropriations for our programs and U.S. Government funding
- investigations, claims and/or litigation
- our international business
- the improper conduct of employees, agents, business partners or joint ventures in which we participate
- the use of accounting estimates for our contracts
- cyber and other security threats or disruptions
- the future investment performance of plan assets and changes in actuarial assumptions associated with our pension and other post-retirement benefit plans
- the performance and financial viability of our suppliers and the availability and pricing of raw materials and components
- competition within our markets
- changes in procurement and other laws, regulations and practices applicable to our industry
- natural and/or environmental disasters
- the adequacy of our insurance coverage, customer indemnifications or other liability protections
- the products and services we provide related to nuclear and other hazardous and high risk operations
- changes in business conditions that could impact recorded goodwill or the value of other long-lived assets
- our ability to develop new products and technologies and maintain technologies, facilities, equipment and a qualified workforce
- our ability to meet performance obligations under our contracts
- unforeseen environmental costs
- our ability to protect our intellectual property rights
- changes in our tax provisions or exposure to additional tax liabilities
- the spin-off of our former Shipbuilding business

Additional information regarding these risks and other important factors can be found in the section entitled “Risk Factors” in our 2015 Annual Report on Form 10-K and as disclosed in this report and from time to time in our other filings with the SEC.

You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of forward-looking statements. These forward-looking statements speak only as of the date this report is first filed or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

## **CONTRACTUAL OBLIGATIONS**

There have been no material changes to our contractual obligations from those discussed in our 2015 Annual Report on Form 10-K.

**NORTHROP GRUMMAN CORPORATION**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes to our market risks from those discussed in our 2015 Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

**DISCLOSURE CONTROLS AND PROCEDURES**

Our principal executive officer (Chairman, Chief Executive Officer and President) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) as of March 31, 2016, and have concluded that these controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit is accumulated and communicated to management, including the principal executive officer and the principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the three months ended March 31, 2016, no change occurred in our internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## NORTHROP GRUMMAN CORPORATION

## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

We have provided information about certain legal proceedings in which we are involved in our 2015 Annual Report on Form 10-K, and updated that information in Note 6 to the unaudited condensed consolidated financial statements in Part I, Item 1.

We are a party to various investigations, lawsuits, claims and other legal proceedings, including government investigations and claims, that arise in the ordinary course of our business. These types of matters could result in fines; penalties; compensatory, treble or other damages; or non-monetary relief. U.S. Government regulations also provide that certain allegations against a contractor may lead to suspension or debarment from future government contracts or suspension of export privileges for the company or one or more of its components. Suspension or debarment could have a material adverse effect on the company because of our reliance on government contracts and authorizations. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. However, based on information available to us to date and other than as noted in our 2015 Annual Report on Form 10-K, as updated by Note 6 to the unaudited condensed consolidated financial statements in this report, we do not believe that the outcome of any matter currently pending against the company is likely to have a material adverse effect on the company's unaudited condensed consolidated financial position as of March 31, 2016, its annual results of operations and/or cash flows. For further information on the risks we face from existing and future investigations, lawsuits, claims and other legal proceedings, please see Risk Factors in Part I, Item 1A of our 2015 Annual Report on Form 10-K.

**Item 1A. Risk Factors**

For a discussion of our risk factors please see the section entitled "Risk Factors" in our 2015 Annual Report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

*Purchases of Equity Securities* – The table below summarizes our repurchases of common stock during the three months ended March 31, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (\$ in millions)
January 1, 2016 - January 29, 2016	416,430	\$ 184.80	416,430	\$ 4,197
January 30, 2016 - February 26, 2016	322,900	190.49	322,900	4,136
February 27, 2016 - April 1, 2016	764,536	191.98	764,536	3,989
Total	1,503,866	\$ 189.67	1,503,866	\$ 3,989

<sup>(1)</sup> Includes commissions paid.

Share repurchases take place from time to time, subject to market conditions and management's discretion, in the open market or in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase programs in the periods presented.

See Note 2 to the unaudited condensed consolidated financial statements in Part I, Item 1 for further information on our share repurchase programs.

**Item 3. Defaults Upon Senior Securities**

No information is required in response to this item.

**Item 4. Mine Safety Disclosures**

No information is required in response to this item.

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**NORTHROP GRUMMAN CORPORATION**

**Item 5. Other Information**

No information is required in response to this item.

**NORTHROP GRUMMAN CORPORATION**

**Item 6. Exhibits**

- 2.1 Agreement and Plan of Merger among Titan II, Inc. (formerly Northrop Grumman Corporation), Northrop Grumman Corporation (formerly New P, Inc.) and Titan Merger Sub Inc., dated March 29, 2011 (incorporated by reference to Exhibit 10.1 to Form 8-K filed April 4, 2011, File No. 001-16411)
  - 2.2 Separation and Distribution Agreement dated as of March 29, 2011, among Titan II, Inc. (formerly Northrop Grumman Corporation), Northrop Grumman Corporation (formerly New P, Inc.), Huntington Ingalls Industries, Inc., Northrop Grumman Shipbuilding, Inc. and Northrop Grumman Systems Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K filed April 4, 2011, File No. 001-16411)
  - 3.1 Amended and Restated Bylaws, as amended February 17, 2016 (incorporated by reference to Exhibit 3.2 to Form 8-K filed February 22, 2016, File No. 001-16411)
  - \*+10.1 Grant Certificate Specifying the Terms and Conditions Applicable to 2016 Restricted Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan
  - \*+10.2 Grant Certificate Specifying the Terms and Conditions Applicable to 2016 Restricted Performance Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan
  - \*+10.3 Northrop Grumman Deferred Compensation Plan (Amended and Restated Effective as of April 1, 2016)
  - \*+10.4 Northrop Grumman Officers Retirement Account Contribution Plan (Amended and Restated Effective as of April 1, 2016)
  - \*+10.5 Northrop Grumman Savings Excess Plan (Amended and Restated Effective as of April 1, 2016)
  - \*12(a) Computation of Ratio of Earnings to Fixed Charges
    - \*15 Letter from Independent Registered Public Accounting Firm
  - \*31.1 Rule 13a-14(a)/15d-14(a) Certification of Wesley G. Bush (Section 302 of the Sarbanes-Oxley Act of 2002)
  - \*31.2 Rule 13a-14(a)/15d-14(a) Certification of Kenneth L. Bedingfield (Section 302 of the Sarbanes-Oxley Act of 2002)
  - \*\*32.1 Certification of Wesley G. Bush pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  - \*\*32.2 Certification of Kenneth L. Bedingfield pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  - \*101 Northrop Grumman Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings and Comprehensive Income, (ii) Condensed Consolidated Statements of Financial Position, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, and (v) Notes to Condensed Consolidated Financial Statements
- + Management contract or compensatory plan or arrangement
- \* Filed with this report
- \*\* Furnished with this report

**NORTHROP GRUMMAN CORPORATION**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHROP GRUMMAN CORPORATION  
(Registrant)

By:

***/s/ Michael A. Hardesty***

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Michael A. Hardesty  
Corporate Vice President, Controller and  
Chief Accounting Officer  
(Principal Accounting Officer)

Date: April 26, 2016

**NORTHROP GRUMMAN CORPORATION**  
**TERMS AND CONDITIONS APPLICABLE TO**  
**2016 RESTRICTED STOCK RIGHTS**  
**GRANTED UNDER THE 2011 LONG-TERM INCENTIVE STOCK PLAN**

These Terms and Conditions (“Terms”) apply to certain “Restricted Stock Rights” (“RSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2016 under its 2011 Long-Term Incentive Stock Plan. If you were granted an RSR award by the Company in 2016, the date of grant of your RSR award (the “Grant Date”) and the number of RSRs applicable to your award are set forth in the letter from the Company announcing your RSR award (your “Grant Letter”) and are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to the 2016 RSR award. If you were granted an RSR award, you are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 12 below if not otherwise defined herein.

Each RSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The number of RSRs subject to your award is subject to adjustment as provided herein. The RSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time. If you do not formally accept your RSR award, including these Terms, in accordance with the instructions and time limit set forth in your Grant Letter, you will be deemed to have forfeited your RSR award.

**1. Vesting; Issuance of Shares.**

Subject to Sections 2 and 6 below, one hundred percent (100%) of the number of RSRs (and any Dividend Equivalents (as defined below)) subject to your award (subject to adjustment as provided in Section 6.1) shall vest upon the third anniversary of the Grant Date, provided that if the third anniversary of the Grant Date falls on a weekend or holiday, then the award shall vest on the next business day.

**1.1 *Payment of RSRs.*** Except as otherwise provided below, the Company shall pay an RSR subject to the award that vests (“Vested RSR”) (and related Dividend Equivalents) within 90 days following the vesting of the RSR on the third anniversary of the Grant Date. The Company shall pay such Vested RSRs in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for each Vested RSR to be paid in cash will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date that such RSR became vested.

**1.2 *Dividend Equivalents.*** The Grantee shall be entitled to payment for Dividend Equivalents (if any) with respect to any Vested RSRs. For purposes of these Terms, “Dividend Equivalents” means the aggregate amount of dividends paid by the Company on a number of shares of Common Stock equivalent to the number of Vested RSRs during the period from the Grant date until the date the Vested RSRs are paid (without interest or

other adjustments to reflect the time value of money). Dividend Equivalents (if any) will be paid at the same time as the Vested RSRs to which they relate are paid. Dividend Equivalents will be paid in cash.

**2. Early Termination of Award; Termination of Employment**

**2.1 *General.*** The RSRs (and related Dividend Equivalents) subject to the award, to the extent not previously vested, shall terminate and become null and void if and when (a) the award terminates in connection with a Change in Control pursuant to Section 6 below, or (b) except as provided in Sections 2.6 and 2.7, and in Section 6, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

**2.2 *Leave of Absence.*** Unless the Committee otherwise provides (at the time of the leave or otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the award, and (b) shall be deemed to be employed by the Company for the duration of such approved leave of absence for purposes of the award. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

**2.3 *Salary Continuation.*** Subject to Section 2.2 above, the term “employment” as used herein means active employment by the Company and salary



continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.2) will not, in and of itself, constitute "employment" for purposes hereof (in the case of salary continuation without active employment, the Grantee's cessation of active employee status shall, subject to Section 2.2, be deemed to be a termination of "employment" for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

**2.4 Sale or Spinoff of Subsidiary or Business Unit.** For purposes of the RSRs (and related Dividend Equivalents) subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested, the Grantee does not otherwise continue to be employed by the Company or one of its subsidiaries after such event, and the divested entity or business (or its successor or a parent company) does not assume the award in connection with such transaction. In the event of such a termination of employment, the termination shall be deemed to be an Early Retirement unless the Grantee was otherwise eligible at the time of termination for Normal Retirement (in which case, the termination shall be considered a Normal Retirement) treated as provided for in Section 2.7 (subject to Section 6).

**2.5 Continuance of Employment Required.** Except as expressly provided in Section 2.6, Section 2.7 and in Section 6, the vesting of the RSRs (and related Dividend Equivalents) subject to the award requires continued employment through the third anniversary of the Grant Date as a condition to the vesting of any portion of the award. Employment for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

**2.6 Death or Disability.** If the Grantee dies or incurs a Disability while employed by the Company or a subsidiary and such death or Disability occurs more than six months after the Grant Date, the outstanding and

previously unvested RSRs (and related Dividend Equivalents) subject to the award shall vest as of the date of the Grantee's death or Disability, as applicable. RSRs (and related Dividend Equivalents) vesting under this Section shall be paid within 90 days following the earlier of (a) Grantee's death or (b) Grantee's Disability. In the event of the Grantee's death prior to the delivery of shares or other payment with respect to any vested RSRs (and related Dividend Equivalents), the Grantee's Successor shall be entitled to any payments to which the Grantee would have been entitled under these Terms with respect to such vested and unpaid RSRs (and related Dividend Equivalents).

**2.7 Termination of Employment Due to Retirement.** If the Grantee ceases to be employed by the Company or one of its subsidiaries due to the Grantee's Early Retirement and such Early Retirement occurs more than six months after the Grant Date, the RSRs (and related Dividend Equivalents) subject to the award shall vest on a prorated basis. Such prorating of RSRs (and related Dividend Equivalents) shall be determined based on the number of days the Grantee was employed by the Company or a subsidiary in the period commencing with the Grant Date through and including the date on which the Grantee is last employed by the Company or a subsidiary, over the number of calendar days in the period commencing with the Grant Date through and including the third anniversary of the Grant Date. Any remaining unvested RSRs (and related Dividend Equivalents), after giving effect to the foregoing acceleration of vesting, shall terminate immediately upon the Grantee's Early Retirement. If the Grantee ceases to be employed by the Company or one of its subsidiaries due to the Grantee's Normal Retirement and such Normal Retirement occurs more than six months after the Grant Date, the RSRs (and related Dividend Equivalents) subject to the award shall vest in full.

Subject to the following provisions of this paragraph, RSRs (and related Dividend Equivalents) vesting under this Section shall be paid within 90 days following the Grantee's Separation from Service. However, in the case of a Governmental Service Retirement by the Grantee, payment of the vested RSRs (and related Dividend Equivalents) will be made within 10 days after the Grantee's Early or Normal Retirement. If the Grantee is a Key Employee as of the date of the Grantee's Separation from Service, the Grantee shall not be entitled to payment of his or her vested RSRs (and related Dividend Equivalents) pursuant to this Section until the earlier of (and payment shall be made upon or promptly after, and in all events within thirty (30) days after, the first to occur of) (a) the date which is six (6) months and one day after the Grantee's Separation from Service, or (b) the date of the Grantee's death. The

provisions of the preceding sentence shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Section 409A of the Code.

In determining the Grantee's eligibility for Early or Normal Retirement, service is measured by dividing (a) the number of days the Grantee was employed by the Company or a subsidiary in the period commencing with his or her last date of hire by the Company or a subsidiary through and including the date on which the Grantee is last employed by the Company or a subsidiary, by (b) 365. If the Grantee ceased to be employed by the Company or a subsidiary and was later rehired by the Company or a subsidiary, the Grantee's service prior to the break in service shall be disregarded in determining service for such purposes; provided that, if the Grantee's employment with the Company or a subsidiary had terminated due to the Grantee's Early Retirement, Normal Retirement, or by the Company or a subsidiary as part of a reduction in force (in each case, other than a termination by the Company or a subsidiary for cause) and, within the two-year period following such termination of employment (the "break in service") the Grantee was subsequently rehired by the Company or a subsidiary, then the Grantee's period of service with the Company or a subsidiary prior to and ending with the break in service will be included in determining service for such purposes. In the event the Grantee is employed by a business that is acquired by the Company or a subsidiary, the Company shall have discretion to determine whether the Grantee's service prior to the acquisition will be included in determining service for such purposes.

### **3. Non-Transferability and Other Restrictions.**

**3.1 *Non-Transferability.*** The award, as well as the RSRs (and related Dividend Equivalents) subject to the award, are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to transfers to the Company. Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company's ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

**3.2 *Recoupment of Awards.*** Any payments or issuances of shares with respect to the award are subject to recoupment pursuant to the Company's Policy Regarding the Recoupment of Certain Performance-

Based Compensation Payments as in effect from time to time, as well as any recoupment or similar provisions of applicable law, and the Grantee shall promptly make any reimbursement requested by the Board or Committee pursuant to such policy or applicable law with respect to the award. Further, the Grantee agrees, by accepting the award, that the Company and its affiliates may deduct from any amounts it may owe the Grantee from time to time (such as wages or other compensation) to the extent of any amounts the Grantee is required to reimburse the Company pursuant to such policy or applicable law with respect to the award.

### **4. Post-Employment Conduct.**

**4.1 *Corporate Policy Council Contribution.*** You acknowledge and agree that as a member of the Corporate Policy Council ("CPC"), you are involved in managing the global operations of the Company, incorporated in Delaware and headquartered in Virginia. You are involved in the most sensitive and proprietary matters affecting the Company, its subsidiaries, predecessors, and/or affiliates (collectively, "Northrop Grumman"), including from a technical, strategic and financial perspective, and are widely exposed to confidential, sensitive and proprietary information concerning Northrop Grumman's global operations, at the headquarters and each of the operating sectors, including in the areas of manned and unmanned aircraft, space, C4ISR, cyber, sensors, electronics, through-life support and technical services. Your job responsibilities require that you have a primary office location in Virginia and/or you spend substantial time at the corporate headquarters in Virginia, among other things, attending CPC and other leadership meetings, and managing operations and employees in Virginia. You occupy one of the most senior executive positions in the Company and have far-reaching access to highly confidential, valuable and sensitive information, customer, vendor and employee relationships, intellectual property, strategic and tactical plans, and financial information and plans. The Company has a legitimate business interest in restricting your ability to compete in the specific manner set forth below. The Company has provided you this grant, subject to these Terms and as consideration for the restrictive covenants set forth in this section 4.

**4.2 *Non-Competition.*** For a period of six (6) months from the date of the termination of Grantee's employment for any reason other than a Reduction-in-Force as determined at the Company's sole discretion ("Termination"), you will not, directly or indirectly, oversee, control, or participate in the design, operation, research, manufacture, marketing, sale, or distribution of "Competitive Products and Services". For the purpose

of this section, "Competitive Products and Services" shall mean products or services that compete with, or are an alternative or potential alternative to, the products sold or services provided by Northrop Grumman, including without limitation products and services in the areas of manned and unmanned aircraft, space, C4ISR, cyber, sensors, electronics, through-life support and technical services.

**4.3 Non-Solicitation of Customers.** For a period of eighteen (18) months from your Termination, you shall not, directly or indirectly, solicit any customer, supplier, or teammate of Northrop Grumman with whom you came into contact, or about whom you received confidential information, while employed by Northrop Grumman, for purposes of providing products or services in competition with Northrop Grumman. In the case of a governmental, regulatory or administrative agency, commission, department or other governmental authority, the customer is determined by reference to the specific program offices or activities for which Northrop Grumman provides goods or services.

**4.4 Non-Solicitation of Employees.** For a period of eighteen (18) months from your Termination, you shall not, directly or indirectly, solicit or offer to hire, any person who was, within a period of six months prior to your Termination, employed by Northrop Grumman, with whom you worked or about whom you received confidential information while employed by Northrop Grumman.

**4.5 Non-Disparagement.** You will not issue or communicate any statement, whether verbal or written, or take any other action that disparages or may be interpreted to disparage the Company, its products, services, officers, directors, or employees; provided that the foregoing shall not apply to any truthful statements made in connection with a formal legal process or government investigation.

**4.6 Exceptions.** You may request an exception to the covenants in this section by making a written request to the Company's Chief Human Resources Officer, with such exceptions being considered at the sole discretion of the Company and communicated in writing to you.

**4.7 Reasonableness.** You agree that the restrictions set forth in this section are (i) reasonable and necessary in all respects, including duration, territory and scope of activity, in order to protect the Company's legitimate business interests, (ii) that the parties have attempted to limit your right to compete only to the extent necessary to protect the Company's legitimate business interests, and (iii) that you will be able to earn a livelihood without violating the restrictions in this

section. It is the intent of the parties that the provisions of this section shall be enforced to the fullest extent permissible under applicable law. However, if any portion of this covenant is deemed unenforceable, the parties agree that a court or arbitrator may revise the portion deemed unenforceable to the maximum extent possible to achieve the objective of the parties, and the remainder of the covenant shall remain in full force and affect.

**4.8 Remedies.** If you violate any provision in Section 4.2, 4.3, 4.4 and/or 4.5 of this section, the Company shall have the right to terminate without payment to you any unvested and/or unpaid RSRs (and associated Dividend Equivalents) and require that you immediately deliver to the Company an amount in cash equal to the aggregate Fair Market Value, determined as of the vesting and/or payment date of all RSRs already received, including any Dividend Equivalents, within one year prior to the breach. Further, you acknowledge and agree that a breach of any of the provisions of this section will result in immediate, irreparable, and continuing damage to the Company for which there is no adequate remedy at law, and the Company will be entitled to injunctive relief, a decree of specific performance, and other relief as may be proper, including monetary damages, to the maximum extent available.

## **5. Compliance with Laws; No Stockholder Rights Prior to Issuance.**

The Company's obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder, including without limitation the right to vote or receive dividends (except as expressly provided in these Terms with respect to Dividend Equivalents), with respect to any shares which may be issued in respect of the RSRs until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee), if such shares become deliverable.

## **6. Adjustments; Change in Control.**

**6.1 Adjustments.** The RSRs, Dividend Equivalents, and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in

capitalization in accordance with Section 6(a) of the Plan.

**6.2. Possible Acceleration on Change in Control.** Notwithstanding the provisions of Section 2 hereof, and further subject to the Company's ability to terminate the award as provided in Section 6.3 below, the outstanding and previously unvested RSRs (and related Dividend Equivalents) subject to the award shall become fully vested as of the date of the Grantee's termination of employment if the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to this Section 6.2 if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months.

Payment of any RSRs (and related Dividend Equivalents) that vest under this Section will be made at the time provided for in Section 2.7 as though the termination of the Grantee's employment was due to a Normal Retirement.

**6.3. Automatic Acceleration; Early Termination.** If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the outstanding and previously unvested RSRs (and related Dividend Equivalents) subject to the award shall vest fully and completely. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 6.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the

award. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 6.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the RSRs (and related Dividend Equivalents); provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

Payment of any RSRs (and related Dividend Equivalents) that vest under this Section 6.3 will be made within 90 days of the third anniversary of the Grant Date unless, prior to such date: (i) the Grantee dies or has a Disability, in which case such payment will be made in the calendar year containing the 75<sup>th</sup> day following the date of the Grantee's death or Disability, as the case may be (and generally will be paid on or about such 75<sup>th</sup> day), or (ii) the Grantee has a Separation from Service, in which case such payment will be made at the time provided for in Section 2.7 as though the termination of the Grantee's employment was due to a Normal Retirement.

## **7. Tax Matters.**

**7.1. Tax Withholding.** The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of making any payments or issuing any shares upon vesting of the RSRs (and related Dividend Equivalents), that the Grantee or other person entitled to such shares or other payment pay the minimum sums required to be withheld by federal, state, local or other applicable tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy such statutory minimum withholding obligations).

**7.2. Transfer Taxes.** The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the RSRs.

**7.3. Compliance with Code.** The Committee shall administer and construe the award, and may amend the Terms of the award, in a manner designed to comply with the Code and to avoid adverse tax consequences under Code Section 409A.

**7.4. Unfunded Arrangement.** The right of the Grantee to receive payment under the award shall be an unsecured contractual claim against the Company. As such, neither the Grantee nor any Successor shall have any rights in or against any specific assets of the Company based on the award. Awards shall at all times be considered entirely unfunded for tax purposes.

**7.5 Code Section 280G.** Notwithstanding any other provision of this Agreement to the contrary, in the event that any amounts payable to you as a result of Section 6.2 or 6.3 hereof, either alone or together with amounts payable pursuant to any other plan, program or arrangement (a) constitute "parachute payments" within the meaning of Section 280G of the Code, and (b) but for this Section 7.5 would be subject to the excise tax imposed by Section 4999 of the Code or any comparable successor provisions (the "Excise Tax"), then the vesting acceleration provided in Section 6.2 or 6.3, as applicable, shall be either (a) provided to you in full, or (b) provided to you to such lesser extent that would result in no portion of the payments so accelerated being subject to the Excise Tax, whichever of the foregoing amounts, when taking into account applicable federal, state, local and foreign income and employment taxes, the Excise Tax, and any other applicable taxes, results in the receipt by you, on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be subject to the Excise Tax. All determinations required to be made under this Section 7.5 shall be made by a registered public accounting firm selected by the Company, which shall provide supporting calculations both to the Company and you no later than the date of the applicable Change in Control. In the event that the Payments are to be reduced pursuant to this Section 7.5, such Payments shall be reduced such that the reduction of compensation to be provided to the Executive as a result of this Section 7.5 is minimized. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A and where two economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis but not below zero.

**8. Choice of Law; Venue; Arbitration.**

This agreement shall be governed by the laws of the State of Delaware. Any cause of action or claim arising out of or related to the terms and conditions applicable to this grant will be determined through final and binding arbitration, in accordance with Northrop Grumman Corporate Procedure H103A, provided that the prevailing party in the arbitration shall be entitled to receive from the losing party reasonably incurred attorneys' fees and costs. You and the Company agree that any arbitration hearing and related proceedings shall

be convened and conducted in Falls Church, VA. If you or the Company believes they require immediate relief to enforce or challenge these terms, before arbitration is commenced or concluded, either party may seek injunctive or other provisional equitable relief from a state or federal court in the Commonwealth of Virginia. All court actions or proceedings arising under these terms shall be heard in a state or federal court in the Commonwealth of Virginia. The Company and you hereby agree to the jurisdiction of the state and federal courts in the Commonwealth of Virginia and waive any right to object to such actions on grounds of venue, jurisdiction or convenience.

**9. Committee Authority.**

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these Terms, the Grant Letter, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Grant Letter, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

**10. Plan; Amendment.**

The RSRs (and related Dividend Equivalents) subject to the award are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Grant Letter and/or the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall control.

**11. Required Holding Period.**

The holding requirements of this Section 11 shall apply to any Grantee who is an elected or appointed officer of the Company on the date Vested RSRs are paid (or, if earlier, on the date the Grantee's employment by the Company and its subsidiaries terminates for any reason). Any Grantee subject to this Section 11 shall not be permitted to sell, transfer, anticipate, alienate, assign, pledge, encumber or charge 50% of the total number (if any) of shares of Common Stock the Grantee receives as payment for Vested RSRs until the earlier of (A) the third anniversary of the date such shares of Common Stock

are paid to the Grantee, (B) the date the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's death or Disability, (C) the occurrence of a Change in Control that results in termination and payment under Section 6.2 or 6.3 above, or (D) with respect to Grantee's entering a U.S. federal government position only, the latest of (i) the date the Grantee's employment with the Company terminates, or (ii) the date the Grantee formally accepts the government position in writing, or (iii) the date the government confirms the Grantee (for positions requiring nomination and confirmation). For purposes of this Section 11, the total number of shares of Common Stock the Grantee receives as payment for Vested RSRs shall be determined on a net basis after taking into account any shares otherwise deliverable with respect to the award that the Company withholds to satisfy tax obligations pursuant to Section 7.1. Any shares of Common Stock received in respect of shares that are covered by the holding period requirements of this Section 11 (such as shares received in respect of a stock split or stock dividend) shall be subject to the same holding period requirements as the shares to which they relate.

## 12. Definitions.

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

**"Board"** means the Board of Directors of the Company.

**"Cause"** means the occurrence of either or both of the following:

- (i) The Grantee's conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses, as a result of vicarious liability, or as a result of good faith actions as an officer of the Company); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee's part shall be considered "willful" unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company.

**"Change in Control"** is used as defined in the Plan.

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

**"Committee"** means the Company's Compensation Committee or any successor committee appointed by the Board to administer the Plan.

**"Common Stock"** means the Company's common stock.

**"Disability"** means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee's employer; all construed and interpreted consistent with the definition of "Disability" set forth in Code Section 409A(a)(2)(C).

**"Early Retirement"** means that the Grantee's employment terminates in any of the following circumstances, and other than a termination of employment that constitutes a Normal Retirement or occurs in connection with a termination by the Company or a subsidiary for cause:

- (i) a termination of employment after the Grantee has attained age 55 with at least 10 years of service.
- (ii) a termination of employment by the Company or a subsidiary as part of a reduction in force and, at the time of such termination, the Grantee has attained age 53 with at least 10 years of service.
- (iii) a termination of employment by the Company or a subsidiary as part of a reduction in force and, at the time of such termination, the sum of the Grantee's age and years of service is at least 75.

**"Fair Market Value"** is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may utilize such other exchange, market, or listing as it deems appropriate.

**"Good Reason"** means, without the Grantee's express written consent, the occurrence of any one or more of the following:

(i) A material and substantial reduction in the nature or status of the Grantee's authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee's authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company's industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. The Company may retain a nationally-recognized executive placement firm for purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue.

In addition, if the Grantee is a vice president, the Grantee's loss of vice-president status will constitute "Good Reason"; provided that the loss of the title of "vice president" will not, in and of itself, constitute Good Reason if the Grantee's lack of a vice president title is generally consistent with the manner in which the title of vice president is used within the Grantee's business unit or if the loss of the title is the result of a promotion to a higher level office. For the purposes of the preceding sentence, the Grantee's lack of a vice-president title will only be considered generally consistent with the manner in which such title is used if most persons in the business unit with authorities, duties, and responsibilities comparable to those of the Grantee immediately prior to the commencement of the Protected Period do not have the title of vice-president.

(ii) A material reduction by the Company in the Grantee's annualized rate of base salary as in effect at the start of the Protected Period, or as the same shall be increased from time to time.

(iii) A material reduction in the aggregate value of the Grantee's level of participation in any of the Company's short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or

arrangements in which the Grantee participates immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate value shall not be deemed to be "Good Reason" if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

(iv) A material reduction in the Grantee's aggregate level of participation in the Company's stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be "Good Reason" if the reduced level of participation remains substantially consistent with the average level of participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

(v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason herein.

**"Governmental Service Retirement"** means an Early or Normal Retirement by the Grantee where the Grantee accepts a position in the federal government or a state or local government and an accelerated distribution under the award is permitted under Code Section 409A based on such government employment and related ethics rules.

**"Key Employee"** means an employee treated as a "specified employee" under Code section 409A(a)(2)(B)(i) of the Company or an Affiliated Company (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof)) if the Company's or an

Affiliated Company's stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Section 409A. Such determination shall be effective for the twelve (12) month period commencing on April 1 of the following year.

**"Normal Retirement"** means that the Grantee terminates employment after attaining age 65 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause). In the case of a Grantee who is an officer of the Company subject to the Company's mandatory retirement at age 65 policy and who, at the applicable time, is not otherwise eligible for Normal Retirement as defined in the preceding sentence, "Normal Retirement" as to that Grantee means that the Grantee's employment is terminated pursuant to such mandatory retirement policy (regardless of the Grantee's years of service and other than in connection with a termination by the Company or a subsidiary for cause).

**"Parent"** is used as defined in the Plan.

**"Plan"** means the Northrop Grumman 2011 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The **"Protected Period"** corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and including the date of the Change in Control.

**"Separation from Service"** means when the Grantee dies, retires, or otherwise has a termination of employment with the Company and its subsidiaries that constitutes a "separation from service" within the meaning of United States Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder.

**"Successor"** means the person acquiring a Grantee's rights to a grant under the Plan by will or by the laws of descent or distribution.



**NORTHROP GRUMMAN CORPORATION**  
**TERMS AND CONDITIONS APPLICABLE TO**  
**2016 RESTRICTED PERFORMANCE STOCK RIGHTS**  
**GRANTED UNDER THE 2011 LONG-TERM INCENTIVE STOCK PLAN**

These Terms and Conditions (“Terms”) apply to certain “Restricted Performance Stock Rights” (“RPSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2016 under its 2011 Long-Term Incentive Stock Plan. If you were granted an RPSR award by the Company in 2016, the date of grant of your RPSR award and the target number of RPSRs applicable to your award are set forth in the letter from the Company announcing your RPSR award (your “Grant Letter”) and are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to the 2016 RPSR award. If you were granted an RPSR award, you are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 12 below if not otherwise defined herein.

Each RPSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein subject to vesting as provided herein. The performance period applicable to your award is January 1, 2016 to December 31, 2018 (the “Performance Period”). The target number of RPSRs subject to your award is subject to adjustment as provided herein. The RPSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time. If you do not formally accept your RPSR award, including these Terms, in accordance with the instructions and time limit set forth in your Grant Letter, you will be deemed to have forfeited your RPSR award.

**1. Vesting; Payment of RPSRs.**

The RPSRs are subject to the vesting and payment provisions established by the Committee with respect to the Performance Period. RPSRs (and any Dividend Equivalents (as defined below)) that vest based on such provisions will be paid as provided below.

**1.1. Performance-Based Vesting of RPSRs.** Subject to Sections 2 and 6 below, the RPSRs subject to the award shall vest and become nonforfeitable based on the performance methodology and goals established by the Committee for the Performance Period. At the conclusion of the Performance Period, the Committee shall determine whether and the extent to which the performance goals have been achieved. The percentage of target RPSRs subject to the award (if any) that have vested for the Performance Period (the “Earnout Percentage”) shall be determined by the Committee based on the methodology and goals as established by the Committee, and its determination of the Earnout Percentage shall be conclusive and binding. Any RPSRs (and related Dividend Equivalents) subject to the award that are not vested as of the conclusion of the Performance Period after giving effect to the Committee’s determinations under this Section 1.1 shall terminate and become null and void as of the last day of the Performance Period.

**1.2. Payment of RPSRs.** The number of RPSRs payable at the conclusion of the Performance Period (“Vested RPSRs”) shall be determined by multiplying

the Earnout Percentage by the target number of RPSRs subject to the award. The Vested RPSRs and any RPSRs that vest and become payable pursuant to Section 2 or 6 may be paid out in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of payment for each Vested RPSR to be paid in cash will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date the Committee determines the extent to which the applicable RPSR performance criteria have been achieved. Vested RPSRs will be paid within 60 days of the vesting date, but in no event later than March 15 of the year following the last day of the Performance Period.

**1.3. Dividend Equivalents.** The Grantee shall be entitled to payment for Dividend Equivalents (if any) with respect to any Vested RPSRs and any RPSRs that vest and become payable pursuant to Section 2 or 6. For purposes of these Terms, “Dividend Equivalents” means the aggregate amount of dividends paid by the Company on a number of shares of Common Stock equivalent to the number of Vested RPSRs (or the number of RPSRs that vest and become payable pursuant to Section 2 or 6) during the period from the beginning of the Performance Period until the date the Vested RPSRs (or the RPSRs that vest and become payable pursuant to Section 2 or 6) are paid, without interest or other adjustments to reflect the time value of money. For these purposes, any Vested RPSRs or RPSRs that vest and become payable pursuant

to Section 2 or 6 in excess of the target number of RPSRs subject to the award shall be considered to have been granted at the beginning of the Performance Period. Dividend Equivalents (if any) will be paid at the same time as the Vested RPSRs (or the RPSRs that vest and become payable pursuant to Section 2 or 6) to which they relate are paid. Dividend Equivalents will be paid in cash.

## **2. Early Termination of Award; Termination of Employment.**

**2.1 General.** The RPSRs (and related Dividend Equivalents) subject to the award shall terminate and become null and void prior to the conclusion of the Performance Period if and when (a) the award terminates in connection with a Change in Control pursuant to Section 6 below, or (b) except as provided below in this Section 2 and in Section 6, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

**2.2 Termination of Employment Due to Retirement, Death or Disability.** The number of RPSRs (and related Dividend Equivalents) subject to the award shall vest on a prorated basis as provided herein if the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's Early Retirement, death, or Disability and, in each case, only if the Grantee has completed at least six (6) consecutive calendar months of employment with the Company or a subsidiary during the three-year Performance Period. Such prorating of RPSRs (and related Dividend Equivalents) shall be based on the number of calendar days the Grantee was actually employed by the Company or one of its subsidiaries over the number of calendar days in the Performance Period (the number of prorated RPSRs, the "Prorated RPSRs"). If the Grantee ceases to be employed by the Company or one of its subsidiaries due to the Grantee's Normal Retirement and such Normal Retirement occurs more than six (6) months after the Grant Date, the RPSRs will vest as if the employee had remained an employee for the full Performance Period. Any RPSRs (and related Dividend Equivalents) subject to the award that do not vest in accordance with this Section 2.2 upon a termination of the Grantee's employment due to Early Retirement or Normal Retirement (collectively "Retirement"), death or Disability shall terminate immediately upon such termination of employment.

*Death or Disability.* In the case of death or Disability (a) the Earnout Percentage of the Grantee's Prorated RPSRs (and related Dividend Equivalents) will be deemed to be 100% (target), regardless of actual performance, and (b) payment of the Prorated RPSRs (and related Dividend Equivalents) that vest pursuant to

this Section 2.2 will be made within 60 days of the Grantee's death or Disability, but in no event later than March 15 of the year following the date of the death or Disability.

*Retirement in General.* Subject to the following provisions of this Section 2.2, in the case of Retirement, the Earnout Percentage will be used to calculate the Grantee's Vested RPSRs, and payment of the Vested RPSRs (and related Dividend Equivalents) will be made in accordance with Section 1.2 above.

In determining the Grantee's eligibility for Retirement, service is measured by dividing (a) the number of days the Grantee was employed by the Company or a subsidiary in the period commencing with his or her last date of hire by the Company or a subsidiary through and including the date on which the Grantee is last employed by the Company or a subsidiary, by (b) 365. If the Grantee ceased to be employed by the Company or a subsidiary and was later rehired by the Company or a subsidiary, the Grantee's service prior to the break in service shall be disregarded in determining service for such purposes; provided that, if the Grantee's employment with the Company or a subsidiary had terminated due to the Grantee's Retirement, or by the Company or a subsidiary as part of a reduction in force (in each case, other than a termination by the Company or a subsidiary for cause) and, within the two-year period following such termination of employment (the "break in service") the Grantee was subsequently rehired by the Company or a subsidiary, then the Grantee's period of service with the Company or a subsidiary prior to and ending with the break in service will be included in determining service for such purposes. In the event the Grantee is employed by a business that is acquired by the Company or a subsidiary, the Company shall have discretion to determine whether the Grantee's service prior to the acquisition will be included in determining service for such purposes.

*Retirement Due to Government Service.* In the case of a Governmental Service Retirement by the Grantee (a) the Performance Period used to calculate the Grantee's Vested RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs prior to the Grantee's Retirement (but in no event shall such date be more than one year before the Grantee's Retirement), (b) the Earnout Percentage of the Grantee's Prorated RPSRs (and related Dividend Equivalents) will be determined based on actual performance for that short Performance Period, and (c) payment of the Prorated RPSRs that become Vested RPSRs (and Dividend Equivalents thereon) will be made within 10 days after Retirement.

**2.3 Other Terminations of Employment.** Subject to Section 6.2, all RPSRs (and related Dividend Equivalents) subject to the award shall terminate immediately upon a termination of the Grantee's employment: (a) for any reason other than due to the Grantee's Retirement, death or Disability; or (b) for Retirement, death or Disability, if the six-month employment requirement under Section 2.2 above is not satisfied.

**2.4 Leave of Absence.** Unless the Committee otherwise provides (at the time of the leave or otherwise), if the Grantee is granted a leave of absence by the Company, the Grantee (a) shall not be deemed to have incurred a termination of employment at the time such leave commences for purposes of the award, and (b) shall be deemed to be employed by the Company for the duration of such approved leave of absence for purposes of the award. A termination of employment shall be deemed to have occurred if the Grantee does not timely return to active employment upon the expiration of such approved leave or if the Grantee commences a leave that is not approved by the Company.

**2.5 Salary Continuation.** Subject to Section 2.4 above, the term "employment" as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.4) will not, in and of itself, constitute "employment" for purposes hereof (in the case of salary continuation without active employment, the Grantee's cessation of active employee status shall, subject to Section 2.4, be deemed to be a termination of "employment" for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

**2.6 Sale or Spinoff of Subsidiary or Business Unit.** For purposes of the RPSRs (and related Dividend Equivalents) subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested, the Grantee does not otherwise continue to be employed by the Company or one of its subsidiaries after such event, and the divested entity or business (or its successor or a parent company) does not assume the award in connection with such transaction. In the event of such a termination of employment, the termination shall be deemed to be a Retirement treated as provided for in Section 2.2 (subject to Section 6).

**2.7 Continuance of Employment Required.** Except as expressly provided in Section 2.2, Section 2.4

and in Section 6, the vesting of the RPSRs (and related Dividend Equivalents) subject to the award requires continued employment through the last day of the Performance Period as a condition to the vesting of any portion of the award. Employment for only a portion of the Performance Period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Grant Letter, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee's status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

**2.8 Death.** In the event of the Grantee's death subsequent to the vesting of RPSRs but prior to the delivery of shares or other payment with respect to such RPSRs (and related Dividend Equivalents), the Grantee's Successor shall be entitled to any payments to which the Grantee would have been entitled under these Terms with respect to such RPSRs.

### **3. Non-Transferability and Other Restrictions.**

**3.1 Non-Transferability.** The award, as well as the RPSRs (and related Dividend Equivalents) subject to the award, are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to transfers to the Company. Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company's ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

**3.2 Recoupment of Awards.** Any payments or issuances of shares with respect to the award are subject to recoupment pursuant to the Company's Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time as well as any recoupment or similar provisions of applicable law, and the Grantee shall promptly make any reimbursement requested by the Board or Committee pursuant to such policy or applicable law with respect to the award. Further, the Grantee agrees, by accepting the

award, that the Company and its affiliates may deduct from any amounts it may owe the Grantee from time to time (such as wages or other compensation) to the extent of any amounts the Grantee is required to reimburse the Company pursuant to such policy or applicable law with respect to the award.

#### **4. Post-Employment Conduct**

**4.1 *Corporate Policy Council Contribution.*** You acknowledge and agree that as a member of the Corporate Policy Council (“CPC”), you are involved in managing the global operations of the Company, incorporated in Delaware and headquartered in Virginia. You are involved in the most sensitive and proprietary matters affecting the Company, its subsidiaries, predecessors, and/or affiliates (collectively, “Northrop Grumman”), including from a technical, strategic and financial perspective, and are widely exposed to confidential, sensitive and proprietary information concerning Northrop Grumman’s global operations, at the headquarters and each of the operating sectors, including in the areas of manned and unmanned aircraft, space, C4ISR, cyber, sensors, electronics, through-life support and technical services. Your job responsibilities require that you have a primary office location in Virginia and/or you spend substantial time at the corporate headquarters in Virginia, among other things, attending CPC and other leadership meetings, and managing operations and employees in Virginia. You occupy one of the most senior executive positions in the Company and have far-reaching access to highly confidential, valuable and sensitive information, customer, vendor and employee relationships, intellectual property, strategic and tactical plans, and financial information and plans. The Company has a legitimate business interest in restricting your ability to compete in the specific manner set forth below. The Company has provided you this grant, subject to these Terms and as consideration for the restrictive covenants set forth in this section 4.

**4.2 *Non-Competition.*** For a period of six (6) months from the date of the termination of Grantee’s employment for any reason other than a Reduction-in-Force as determined at the Company’s sole discretion (“Termination”), you will not, directly or indirectly, oversee, control, or participate in the design, operation, research, manufacture, marketing, sale, or distribution of “Competitive Products and Services”. For the purpose of this section, “Competitive Products and Services” shall mean products or services that compete with, or are an alternative or potential alternative to, the products sold or services provided by Northrop Grumman, including without limitation products and services in the areas of manned and unmanned aircraft, space, C4ISR,

cyber, sensors, electronics, through-life support and technical services.

**4.3 *Non-Solicitation of Customers.*** For a period of eighteen (18) months from your Termination, you shall not, directly or indirectly, solicit any customer, supplier, or teammate of Northrop Grumman with whom you came into contact, or about whom you received confidential information, while employed by Northrop Grumman, for purposes of providing products or services in competition with Northrop Grumman. In the case of a governmental, regulatory or administrative agency, commission, department or other governmental authority, the customer is determined by reference to the specific program offices or activities for which Northrop Grumman provides goods or services.

**4.4 *Non-Solicitation of Employees.*** For a period of eighteen (18) months from your Termination, you shall not, directly or indirectly, solicit or offer to hire, any person who was, within a period of six months prior to your Termination, employed by Northrop Grumman, with whom you worked or about whom you received confidential information while employed by Northrop Grumman.

**4.5 *Non-Disparagement.*** You will not issue or communicate any statement, whether verbal or written, or take any other action that disparages or may be interpreted to disparage the Company, its products, services, officers, directors, or employees; provided that the foregoing shall not apply to any truthful statements made in connection with a formal legal process or government investigation.

**4.6 *Exceptions.*** You may request an exception to the covenants in this section by making a written request to the Company’s Chief Human Resources Officer, with such exceptions being considered at the sole discretion of the Company and communicated in writing to you.

**4.7 *Reasonableness.*** You agree that the restrictions set forth in this section are (i) reasonable and necessary in all respects, including duration, territory and scope of activity, in order to protect the Company’s legitimate business interests, (ii) that the parties have attempted to limit your right to compete only to the extent necessary to protect the Company’s legitimate business interests, and (iii) that you will be able to earn a livelihood without violating the restrictions in this section. It is the intent of the parties that the provisions of this section shall be enforced to the fullest extent permissible under applicable law. However, if any portion of this covenant is deemed unenforceable, the parties agree that a court or arbitrator may revise the

portion deemed unenforceable to the maximum extent possible to achieve the objective of the parties, and the remainder of the covenant shall remain in full force and affect.

**4.8 Remedies.** If you violate any provision in Section 4.2, 4.3, 4.4, and/or 4.5 of this section, the Company shall have the right to terminate without payment to you any unvested and/or unpaid RPSRs (and associated Dividend Equivalents) and require that you immediately deliver to the Company an amount in cash equal to the aggregate Fair Market Value, determined as of the vesting and/or payment date of all RPSRs already received, including any Dividend Equivalents, within one year prior to the breach. Further, you acknowledge and agree that a breach of any of the provisions of this section will result in immediate, irreparable, and continuing damage to the Company for which there is no adequate remedy at law, and the Company will be entitled to injunctive relief, a decree of specific performance, and other relief as may be proper, including monetary damages, to the maximum extent available.

**5. Compliance with Laws; No Stockholder Rights Prior to Issuance.**

The Company's obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission, or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder, including without limitation the right to vote or receive dividends (except as expressly provided in these Terms with respect to Dividend Equivalents), with respect to any shares which may be issued in respect of the RPSRs until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee), if such shares become deliverable.

**6. Adjustments; Change in Control.**

**6.1 Adjustments.** The RPSRs and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In addition, for RPSRs that do not use a relative total shareholder return metric as the applicable performance criterion, the applicable performance criteria and goals are subject to adjustment pursuant to Section 8 of the Plan. Any such adjustment

or determination not to make any adjustment shall be conclusive and binding.

**6.2 *Possible Acceleration on Change in Control.***

Notwithstanding the provisions of Section 2 hereof, and further subject to the Company's ability to terminate the award as provided in Section 6.3 below, the Grantee shall be entitled to vesting of the award as provided below in the event of the Grantee's termination of employment if at the time of the termination, the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, and the Grantee's employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

Notwithstanding anything else contained herein to the contrary, the termination of the Grantee's employment (or other events giving rise to Good Reason) shall not entitle the Grantee to any accelerated vesting pursuant to this Section 6.2 if there is objective evidence that, as of the commencement of the Protected Period, the Grantee had specifically been identified by the Company as an employee whose employment would be terminated as part of a corporate restructuring or downsizing program that commenced prior to the Protected Period and such termination of employment was expected at that time to occur within six (6) months.

In the event the Grantee is entitled to payment in accordance with the foregoing provisions of this Section 6.2, then the Grantee will be eligible for payment of a number of RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the last day of the month coinciding with or immediately preceding the date of the termination of the Grantee's employment, multiplied by (b) the target number of RPSRs subject to the award. Payment of any amount due under this Section 6.2 will be made within 60 days of the date of the termination of Grantee's employment, but in no event later than March 15<sup>th</sup> of the year following the Grantee's termination of employment.

**6.3 *Automatic Acceleration; Early Termination.*** If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award

would not continue after the Change in Control, then upon the Change in Control the Grantee shall be entitled to a payment of the RPSRs (and related Dividend Equivalents) as provided below and the award shall terminate. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 6.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the award. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 6.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the award; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

In the event the Grantee is entitled to a payment in accordance with the foregoing provisions of this Section 6.3, then the Grantee will be eligible for payment of a number of RPSRs (and related Dividend Equivalents) determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company, multiplied by (b) the target number of RPSRs subject to the award. Payment of any amount due under this Section 6.3 will be made within 60 days of the Change of Control, but in no event later than March 15 of the year following the Change in Control. In the event the Grantee is employed by the Company or a subsidiary immediately prior to the Change in Control and is entitled to payment in accordance with the foregoing provisions of this Section 6.3, then this Section 6.3 shall control as to the amount and timing of the payment of the award notwithstanding anything in Section 2.2 or 6.2 to the contrary. In the event of the Grantee's Retirement pursuant to Section 2.2 prior to a Change in Control described in the first paragraph of this Section 6.3 in which the award is to be terminated, the Earnout Percentage shall no longer be based on the portion of the Performance Period otherwise considered for purposes of Section 2.2 but shall instead be calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company.

## **7. Tax Matters.**

**7.1 Tax Withholding.** The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of making any payments or

issuing any shares upon vesting of the RPSRs and related Dividend Equivalents, that the Grantee or other person entitled to such shares or other payment pay the minimum sums required to be withheld by federal, state, local or other applicable tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy such statutory minimum withholding obligations).

**7.2 Transfer Taxes.** The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the vesting of the RPSRs.

**7.3 Compliance.** These Terms are designed to be exempt from Code Section 409A, and the Committee shall administer and construe the award, and may amend the Terms of the award, in such a way as to be exempt from and to avoid adverse tax consequences under Code Section 409A.

**7.4 Unfunded Arrangement.** The right of the Grantee to receive payment under the award shall be an unsecured contractual claim against the Company. As such, neither the Grantee nor any Successor shall have any rights in or against any specific assets of the Company based on the award. Awards shall at all times be considered entirely unfunded for tax purposes.

**7.5 Code Section 280G.** Notwithstanding any other provision of this Agreement to the contrary, in the event that any amounts payable to you as a result of Section 6.2 or 6.3 hereof, either alone or together with amounts payable pursuant to any other plan, program or arrangement (a) constitute "parachute payments" within the meaning of Section 280G of the Code, and (b) but for this Section 7.5 would be subject to the excise tax imposed by Section 4999 of the Code or any comparable successor provisions (the "Excise Tax"), then the vesting acceleration provided in Section 6.2 or 6.3, as applicable, shall be either (a) provided to you in full, or (b) provided to you to such lesser extent that would result in no portion of the payments so accelerated being subject to the Excise Tax, whichever of the foregoing amounts, when taking into account applicable federal, state, local and foreign income and employment taxes, the Excise Tax, and any other applicable taxes, results in the receipt by you, on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be subject to the Excise Tax. All determinations required to be made under this Section

7.5 shall be made by a registered public accounting firm selected by the Company, which shall provide supporting calculations both to the Company and you no later than the date of the applicable Change in Control. In the event that the Payments are to be reduced pursuant to this Section 7.5, such Payments shall be reduced such that the reduction of compensation to be provided to the Executive as a result of this Section 7.5 is minimized. In applying this principle, the reduction shall be made in a manner consistent with the requirements of Section 409A and where two economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis but not below zero.

**8. Choice of Law; Venue; Arbitration.**

This agreement shall be governed by the laws of the State of Delaware. Any cause of action or claim arising out of or related to the terms and conditions applicable to this grant will be determined through final and binding arbitration, in accordance with Northrop Grumman Corporate Procedure H103A, provided that the prevailing party in the arbitration shall be entitled to receive from the losing party reasonably incurred attorneys' fees and costs. You and the Company agree that any arbitration hearing and related proceedings shall be convened and conducted in Falls Church, VA. If you or the Company believes they require immediate relief to enforce or challenge these terms, before arbitration is commenced or concluded, either party may seek injunctive or other provisional equitable relief from a state or federal court in the Commonwealth of Virginia. All court actions or proceedings arising under these terms shall be heard in a state or federal court in the Commonwealth of Virginia. The Company and you hereby agree to the jurisdiction of the state and federal courts in the Commonwealth of Virginia and waive any right to object to such actions on grounds of venue, jurisdiction or convenience.

**9. Committee Authority.**

The Committee has the discretionary authority to determine any questions as to the date when the Grantee's employment terminated and the cause of such termination and to interpret any provision of these Terms, the Grant Letter, the Stock Plan System, the Plan, and any other applicable rules. Any action taken by, or inaction of, the Committee relating to or pursuant to these Terms, the Grant Letter, the Stock Plan System, the Plan, or any other applicable rules shall be within the absolute discretion of the Committee and shall be conclusive and binding on all persons.

**10. Plan; Amendment.**

The RPSRs (and related Dividend Equivalents) subject to the award are governed by, and the Grantee's rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Committee, as the foregoing may be amended from time to time. The Grantee shall have no rights with respect to any amendment of these Terms or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Grant Letter and/or the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall control.

**11. Required Holding Period.**

The holding requirements of this Section 11 shall apply to any Grantee who is an elected or appointed officer of the Company on the date any RPSRs are paid (or, if earlier, on the date the Grantee's employment by the Company and its subsidiaries terminates for any reason). Any Grantee subject to this Section 11 shall not be permitted to sell, transfer, anticipate, alienate, assign, pledge, encumber or charge 50% of the total number (if any) of shares of Common Stock the Grantee receives as payment for the RPSRs until the earlier of (A) the third anniversary of the date such shares of Common Stock are paid to the Grantee, (B) the date the Grantee's employment by the Company and its subsidiaries terminates due to the Grantee's death or Disability, (C) the occurrence of a Change in Control that results in termination and payment under Section 6.2 or 6.3 above, or (D) with respect to Grantee's entering a U.S. federal government position only, the latest of (i) the date the Grantee's employment with the Company terminates, or (ii) the date the Grantee formally accepts the government position in writing, or (iii) the date the government confirms the Grantee (for positions requiring nomination and confirmation). Should the Grantee's employment by the Company and its subsidiaries terminate (regardless of the reason for such termination, but other than due to the Grantee's death or Disability or a Change in Control related termination under Section 6.2 or entering a U.S. federal government position), such holding period requirement shall not apply as to any shares acquired upon payment of RPSRs to the extent such payment is made more than one year after such termination of employment. (For purposes of clarity, in such circumstances the holding period requirement will apply as to any shares acquired upon payment of RPSRs within one year after such a termination of employment.) For purposes of this Section 11, the total number of shares of Common Stock the Grantee receives as payment for RPSRs shall be determined on a net basis after taking

into account any shares otherwise deliverable with respect to the award that the Company withholds to satisfy tax obligations pursuant to Section 7.1. Any shares of Common Stock received in respect of shares that are covered by the holding period requirements of this Section 11 (such as shares received in respect of a stock split or stock dividend) shall be subject to the same holding period requirements as the shares to which they relate.

## 12. Definitions.

Whenever used in these Terms, the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

“**Board**” means the Board of Directors of the Company.

“**Cause**” means the occurrence of either or both of the following:

- (i) The Grantee’s conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses, as a result of vicarious liability, or as a result of good faith actions as an officer of the Company); or
- (ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee’s part shall be considered “willful” unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his or her action or omission was in the best interest of the Company.

“**Change in Control**” is used as defined in the Plan.

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

“**Committee**” means the Company’s Compensation Committee or any successor committee appointed by the Board to administer the Plan.

“**Common Stock**” means the Company’s common stock.

“**Disability**” means, with respect to a Grantee, that the Grantee: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months; or (ii) is, by

reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Grantee’s employer.

“**Early Retirement**” means that the Grantee’s employment terminates in any of the following circumstances, and other than a termination of employment that constitutes a Normal Retirement or occurs in connection with a termination by the Company or a subsidiary for cause:

- (i) a termination of employment after the Grantee has attained age 55 with at least 10 years of service.
- (ii) a termination of employment by the Company or a subsidiary as part of a reduction in force and, at the time of such termination, the Grantee has attained age 53 with at least 10 years of service.
- (iii) a termination of employment by the Company or a subsidiary as part of a reduction in force and, at the time of such termination, the sum of the Grantee’s age and years of service is at least 75.

“**Fair Market Value**” is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may utilize such other exchange, market, or listing as it deems appropriate.

“**Good Reason**” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

- (i) A material and substantial reduction in the nature or status of the Grantee’s authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee’s authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company’s industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. The Company may retain a nationally-recognized executive placement firm for



purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue.

In addition, if the Grantee is a vice president, the Grantee's loss of vice-president status will constitute "Good Reason"; provided that the loss of the title of "vice president" will not, in and of itself, constitute Good Reason if the Grantee's lack of a vice president title is generally consistent with the manner in which the title of vice president is used within the Grantee's business unit or if the loss of the title is the result of a promotion to a higher level office. For the purposes of the preceding sentence, the Grantee's lack of a vice-president title will only be considered generally consistent with the manner in which such title is used if most persons in the business unit with authorities, duties, and responsibilities comparable to those of the Grantee immediately prior to the commencement of the Protected Period do not have the title of vice-president.

- (ii) A material reduction by the Company in the Grantee's annualized rate of base salary as in effect on the first to occur of the start of the Performance Period or the start of the Protected Period, or as the same shall be increased from time to time.
- (iii) A material reduction in the aggregate value of the Grantee's level of participation in any of the Company's short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be "Good Reason" if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.
- (iv) A material reduction in the Grantee's aggregate level of participation in the Company's stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be "Good Reason" if the reduced level of participation remains

substantially consistent with the average level of participation of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

- (v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee's principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

The Grantee's right to terminate employment for Good Reason shall not be affected by the Grantee's incapacity due to physical or mental illness. The Grantee's continued employment shall not constitute a consent to, or a waiver of rights with respect to, any circumstances constituting Good Reason herein.

**"Governmental Service Retirement"** means a Retirement by the Grantee where the Grantee accepts a position in the federal government or a state or local government and an accelerated distribution under the award is permitted under Code Section 409A based on such government employment and related ethics rules.

**"Normal Retirement"** means that the Grantee terminates employment after attaining age 65 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause). In the case of a Grantee who is an officer of the Company subject to the Company's mandatory retirement at age 65 policy and who, at the applicable time, is not otherwise eligible for Normal Retirement as defined in the preceding sentence, "Normal Retirement" as to that Grantee means that the Grantee's employment is terminated pursuant to such mandatory retirement policy (regardless of the Grantee's years of service and other than in connection with a termination by the Company or a subsidiary for cause).

**"Parent"** is used as defined in the Plan.

**"Plan"** means the Northrop Grumman 2011 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The **"Protected Period"** corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:

- (i) If the Change in Control is triggered by a tender offer for shares of the Company's stock or by the offeror's acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.
- (iii) In the case of any Change in Control not described in clause (i) or (ii) above, the Protected Period shall commence on the date that is six (6) months prior to the Change in Control and shall continue through and include the date of the Change in Control.

“**Successor**” means the person acquiring a Grantee's rights to a grant under the Plan by will or by the laws of descent or distribution.

NORTHROP GRUMMAN  
DEFERRED COMPENSATION PLAN  
(Amended and Restated Effective as of April 1, 2016)

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NORTHROP GRUMMAN  
DEFERRED COMPENSATION PLAN  
(Amended and Restated Effective as of April 1, 2016)

The Northrop Grumman Deferred Compensation Plan (the "Plan") was last amended and restated effective as of January 1, 2013. This restatement amends that version of the Plan, and is effective April 1, 2016. This restatement does not include changes that apply to amounts earned and vested under the Plan prior to 2005.

This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the "Code") and official guidance issued thereunder (except with respect to amounts covered by Appendix B), and (2) to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

**ARTICLE I**

**DEFINITIONS**

1.1 **Definitions**

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

- (a) "Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.
- (b) "Administrative Committee" means the committee in charge of Plan administration, as described in Article VII.
- (c) "Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).
- (d) "Base Salary" shall mean a Participant's annual base salary, excluding bonuses, commissions, incentive and all other remuneration for services rendered to the Affiliated Companies and prior to reduction for any salary contributions to a plan established pursuant to section 125 of the Code or qualified pursuant to section 401(k) of the Code.
- (e) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a

Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.

(1) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.

(2) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.

(3) No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Effective January 1, 2007, a Participant will automatically revoke a designation of a spouse as primary beneficiary upon the dissolution of their marriage.

(4) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor.

(5) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

(f) "Board" shall mean the Board of Directors of the Company.

(g) “Bonuses” shall mean the bonuses earned under the Company’s formal incentive plans, as defined by the Administrative Committee, and payable while a Participant is an Employee.

(h) “Code” shall mean the Internal Revenue Code of 1986, as amended.

(i) “Committees” shall mean the Committees appointed by the Board to administer the Plan and investments in accordance with Article VII.

(j) “Company” shall mean Northrop Grumman Corporation and any successor.

(k) “Compensation” shall be Base Salary plus Bonuses. However, any payment authorized by the Compensation and Management Development Committee that is (1) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Plan (AIP) for a given year and (2) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, shall not be treated as Compensation. Further, any award payment under the Northrop Grumman Long-Term Incentive Cash Plan shall not be treated as Compensation.

(l) “Disability” or “Disabled” shall mean the Participant’s inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

(m) “Early Distribution” shall mean an election by a Participant in accordance with Appendix Section B.2 to receive a withdrawal of amounts from his or her Account prior to the time at which such Participant would otherwise be entitled to such amounts.

(n) “Eligible Employee” shall mean any Employee who meets the following conditions:

(1) he or she is initially treated by the Affiliated Companies as an Employee and not as an independent contractor; and

(2) he or she meets the eligibility criteria established by the Administrative Committee.

The eligibility criteria established by the Administrative Committee will include, but not be limited to, classifications of Employees who are eligible to participate and the date as of which various groups of Employees will be eligible to participate. This includes, for example, Administrative Committee authority to delay eligibility for employees of newly acquired companies who become Employees.

(o) “Employee” shall mean any common law employee of the Affiliated Companies.



(p) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

(q) "Hardship Distribution" shall mean a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of his or her dependent (as defined in Section 152(a) of the Code), loss of a Participant's property due to casualty, or other similar or extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that would constitute an unforeseeable emergency will depend upon the facts of each case, but, in any case, a Hardship Distribution may not be made to the extent that such hardship is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant's assets, to the extent the liquidation of assets would not itself cause severe financial hardship, or (iii) by cessation of deferrals under this Plan.

(r) "Initial Election Period" shall mean:

(1) in the case of a newly hired Employee who is entitled to participate under Article II, the 30-day period following the date on which the Employee first becomes an Eligible Employee; and

(2) in the case of any other Employee who becomes an Eligible Employee and is entitled to participate under Article II, the next Open Enrollment Period.

(s) "Investment Committee" means the committee in charge of investment aspects of the Plan, as described in Article VII.

(t) "Key Employee" means an employee who on the date of his Separation from Service is treated as a "specified employee" under Code section 409A in accordance with a uniform Company policy.

(u) "Open Enrollment Period" means the period each Plan Year designated by the Administrative Committee for electing deferrals for the following Plan Year.

(v) "Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II.

(w) "Payment Date" shall mean:

(1) for distributions upon early termination under Section B.1(a), a date after the end of the month in which termination of employment occurs;

(2) for distributions after Retirement, Disability or death under Section B.1(b), a date after the end of the month in which occurs Retirement, the determination of Disability by the Administrative Committee, or the notification of the Administrative Committee of the Participant's death (or later qualification of the Beneficiary or Beneficiaries), as applicable; and

(3) for distributions with a scheduled withdrawal date under Section B.1(c), a date after the December 31 prior to the elected payment year,

the exact date in each case to be determined by the Administrative Committee to allow time for administrative processing.

(x) “Plan” shall be the Northrop Grumman Deferred Compensation Plan.

(y) “Plan Year” shall be the calendar year.

(z) “Retirement” shall mean termination of employment with the Affiliated Companies after reaching age 55.

(aa) “Scheduled Withdrawal Date” shall mean the distribution date elected by the Participant for an in-service withdrawal of amounts deferred in a given Plan Year, and earnings and losses attributable thereto, as set forth on the election form for such Plan Year.

(bb) “Separation from Service” or “Separates from Service” or “Separating from Service” means a “separation from service” within the meaning of Code section 409A.

## **ARTICLE II** **PARTICIPATION**

### 2.1 In General

(a) An Eligible Employee may become a Participant by complying with the procedures established by the Administrative Committee for enrolling in the Plan.

(b) Anyone who becomes an Eligible Employee will be entitled to become a Participant during his or her Initial Election Period or any subsequent Open Enrollment Period.

(c) An individual will cease to be a Participant when he or she no longer has a positive balance to his or her Account under the Plan.

### 2.2 Disputes as to Employment Status

(a) Because there may be disputes about an individual’s proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.

(b) The Affiliated Companies will make the initial determination of an individual’s employment status.

(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an “Eligible Employee” and he or she will not be entitled to participate in the Plan.

(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary of the plan and enrollment forms or other actions are taken indicating that he or she may participate.

(c) Disputes may arise as to an individual’s employment status. As part of the resolution of the dispute, an individual’s status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees.

### 2.3 Cessation of Eligibility

If the Administrative Committee determines or reasonably believes that a Participant has ceased to be a management or highly compensated employee within the meaning of ERISA Title I, the Participant will no longer be able to make elections to defer compensation under the Plan.

If an Eligible Employee receives a distribution under Appendix Section B.2, the Employee will not be permitted to defer amounts under the Plan for the two Plan Years following the year of distribution.

## **ARTICLE III DEFERRAL ELECTIONS**

### 3.1 Elections to Defer Compensation

(a) Initial Elections. Each Participant may elect to defer an amount of Compensation by filing an election with the Administrative Committee no later than the last day of his or her Initial Election Period. If the election is made pursuant to Section 1.1(r)(1), it will apply for the remainder of the Plan Year. Otherwise, the election will apply for the following Plan Year.

(b) Subsequent Elections. A Participant may elect to defer Compensation earned in subsequent Plan Years by filing a new election in the Open Enrollment Period for each subsequent Plan Year. An election to participate for a Plan Year is irrevocable.

(c) General Rules for all Elections. The Administrative Committee may establish procedures for elections and set limits and other requirements on the amount of Compensation that may be deferred. The Administrative Committee may change these rules from time to time. Deferral elections shall address distribution of the deferred amounts as described in Section 6.1.

(d) Committee Rules. All elections must be made in accordance with rules, procedures and forms provided by the Administrative Committee. The Administrative Committee may change the rules, procedures and forms from time to time and without prior notice to Participants.

(e) Cancellation of Election. If a Participant becomes disabled (as defined under Code Section 409A) or obtains a distribution on account of an Unforeseeable Emergency under Section 6.2 during a Plan Year, his deferral election for such Plan Year shall be cancelled.

### 3.2 Crediting of Deferrals

(a) In General. Amounts deferred by a Participant under the Plan shall be credited to the Participant's Account as soon as practicable after the amounts would have otherwise been paid to the Participant.

(b) Cessation of Crediting. Effective January 1, 2011, no further amounts will be deferred under the Plan and credited to Participant Accounts.

### 3.3 Investment Elections

(a) The Investment Committee will establish a number of different types of investments for the Plan. The Investment Committee may change the investments from time to time, without prior notice to Participants.

(b) Participants may elect how their future contributions and existing Account balances will be deemed invested in the various types of investment and may change their elections from time to time.

(c) Although the Participants may designate the deemed investment of their Accounts, the Investment Committee is not bound to invest any actual amounts in any particular investment. The Investment Committee will select from time to time, in its sole and absolute discretion, commercially available investments of each of the types offered. Any investments actually made remain the property of the Affiliated Companies (or the rabbi trust under Section 4.2) and are not Plan assets.

(d) Selections of the types of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may prescribe rules which may include, among other matters, limitations on the amounts which may be transferred and procedures for electing transfers.

(2) The Administrative Committee may prescribe rules for valuing Accounts for purposes of transfers. Such rules may, in the Administrative Committee's discretion, use averaging methods to determine values and accrue estimated expenses.

(3) The Administrative Committee may prescribe the periods and frequency with which Participants may change deemed investment elections and make transfers.

(4) The Administrative Committee may change its rules from time to time and without prior notice to Participants.

(e) Effective January 13, 2011, Participant investment elections involving a Company stock investment fund (e.g., transfers into or out of the fund) may be restricted, including in accordance with Company policies generally applicable to employee transactions in Company stock.

#### 3.4 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of their contributions due to poor investment performance.

### **ARTICLE IV** **ACCOUNTS AND TRUST FUNDING**

#### 4.1 Accounts

The Administrative Committee shall establish and maintain an Account for each Participant under the Plan. Each Participant's Account shall be further divided into separate subaccounts ("investment subaccounts"), each of which corresponds to an investment type elected by the Participant pursuant to Section 3.3. A Participant's Account shall be credited as follows:

(a) The Administrative Committee shall credit the investment subaccounts of the Participant's Account with an amount equal to Compensation deferred by the Participant in accordance with the Participant's election under Section 3.3; that is, the portion of the Participant's deferred Compensation that the Participant has elected to be deemed invested in a certain type of investment shall be credited to the investment subaccount corresponding to that investment type.

(b) The investment subaccounts of Participants' Accounts will be credited with earnings or losses based on the earnings or losses of the corresponding investments selected by the Participant and valued in accordance with the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(2) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(3) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

#### 4.2 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies that it may use in meeting its obligations under the Plan. Any trust set up will be a rabbi trust and any assets placed in the trust shall continue for all purposes to be part of the general assets of the Company and shall be available to its general creditors in the event of the Company's bankruptcy or insolvency.

### **ARTICLE V VESTING**

#### 5.1 In General

A Participant's interest in his or her Account will be nonforfeitable.

#### 5.2 Exceptions

The following exceptions apply to the vesting rule:

- (a) Forfeitures on account of a lost payee. See Section 6.4.
- (b) Forfeitures under an escheat law.
- (c) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (d) Expenses charged to a Participant's Account.
- (e) Investment losses.
- (f) Forfeitures resulting from early withdrawals. See Section B.2.

### **ARTICLE VI DISTRIBUTIONS**

#### 6.1 Distribution of Deferred Compensation Contributions

Appendix B governs the distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Code section 409A. Thus,

this Section 6.1 does not apply to these pre-2005 deferrals, but does apply to all other amounts deferred under the Plan.

(a) Separate Distribution Election. A Participant must make a separate distribution election for each year beginning with the 2005 deferral election. A Participant generally makes a distribution election at the same time the Participant makes the deferral election, i.e., during the Open Enrollment Period. The Participant will specify in the distribution election whether the amounts deferred for the year (and earnings thereon) will be paid upon a Separation from Service or upon a specified date, and the method of distribution for such amounts. Even if a Participant elects to have a year's deferrals payable upon a specified date, he shall also specify a method of distribution for payments upon a Separation from Service.

(b) Distribution Upon Separation from Service. A Participant may elect on a deferral form to have the portion of his Account related to amounts deferred under the deferral form (and earnings thereon) distributed in a lump sum or in quarterly installments over a period of 5, 10, or 15 years. If a Participant does not elect a method for distribution for a deferred amount, the amount will be distributed in quarterly installments over 10 years. Notwithstanding the foregoing, if a Participant's Account balance is \$50,000 or less at the time the Participant Separates from Service or if the Separation from Service occurs before age 55 for reasons other than death or disability (as defined under Code section 409A), the deferred amount will be distributed in a lump sum payment.

A lump sum payment shall be made in the second month following the month of Separation from Service. Installment payments shall commence as of the January, April, July, or October that next follows the month of Separation from Service and that is not the month immediately following the month of Separation from Service. For example, if a Separation from Service occurs in January, payments begin in April. If a Separation from Service occurs in March, payments begin in July.

Notwithstanding the foregoing, distributions may not be made to a Key Employee upon a Separation from Service before the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee). Any lump sum payment that would otherwise be made during this period of delay shall be paid on the first day of the seventh month following the Participant's Separation from Service (or, if earlier, the first day of the month after the Participant's death). Any series of installment payments impacted by this delay shall begin as of the January, April, July, or October coincident with or next following the six-month delay. All such installment payments shall be delayed six months in accordance with Treas. Reg. section 1.409A-3(i)(2)(ii).

At the discretion of the Administrative Committee, a distribution may commence earlier or later than the date specified above, provided that the timing of any such commencement complies with Treas. Reg. section 1.409A-3(d) or any successor thereto.

(c) Distribution as of Specified Date. A Participant may elect on a deferral form to have the portion of his Account related to amounts deferred under the deferral form (and earnings thereon) paid to the Participant as of a January that is at least two years after the year of

deferral. The Participant may elect to receive such amount as a lump sum or in quarterly installments over 2 to 5 years. If the amount is \$25,000 or less at the specified date for distribution, the Participant will receive a lump sum distribution of the amount regardless of his elected distribution form. If the Participant Separates from Service before the specified date or while receiving a distribution of an amount under this Section 6.1(c), such portion of the Account will be distributed in accordance with the Participant's distribution election for a Separation from Service made at the time of the Participant's deferral election.

(d) Changes in Time or Form of Distribution. A Participant may make up to two subsequent elections to change the time or form of a distribution for any year's deferral. Such an election, however, shall be effective only if the following conditions are satisfied:

(1) The election may not take effect until at least twelve (12) months after the date on which the election is made;

(2) In the case of an election to change the time or form of the distribution under Sections 6.1(b) or (c), a distribution may not be made earlier than at least five (5) years from the date the distribution would have otherwise been made; and

(3) In the case of an election to change the time or form of a distribution under Section 6.1(c), the election must be made at least twelve (12) months before the date the distribution is scheduled to be paid.

(e) Effect of Taxation. If a Participant's benefits under the Plan are includible in income pursuant to Code section 409A, the Company shall have the discretion to accelerate the distribution of all or a portion of such includible benefits to the Participant, provided that the Participant shall not be given a direct or indirect election as to whether such discretion is exercised.

(f) Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Committee's reasonable anticipation of one or more of the following events:

(1) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or

(2) The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section 6.1(f) shall be paid in accordance with Code section 409A.

## 6.2 Withdrawals for Unforeseeable Emergency

A Participant may withdraw all or any portion of his Account balance for an Unforeseeable Emergency. The amounts distributed with respect to an Unforeseeable Emergency



may not exceed the amounts necessary to satisfy such Unforeseeable Emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship) or by cessation of deferrals under the Plan. "Unforeseeable Emergency" means for this purpose a severe financial hardship to a Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Code section 152(a)) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

### 6.3 Payments Not Received At Death

In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check which has been issued by the Plan. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

### 6.4 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required payment date, the amount allocated to the Participant's Account shall be forfeited. If, after such forfeiture, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period.

### 6.5 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

## **ARTICLE VII** **ADMINISTRATION**

### 7.1 Committees

(a) An Administrative Committee of one or more persons, shall be appointed by, and serve at the pleasure of, the Chairman and Chief Executive Officer. The number of members comprising the Administrative Committee shall be determined by the Chairman, President, and Chief Executive Officer, who may from time to time vary the number of members. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Chairman, President, and Chief Executive Officer. The Chairman, President, and Chief Executive Officer may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Administrative Committee shall be filled promptly by the Chairman, President, and Chief Executive Officer.

(b) An Investment Committee of one or more persons, shall be appointed by, and serve at the pleasure of, the Board. The number of members comprising the Investment Committee shall be determined by the Board, who may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

## 7.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any action permitted to be taken at a meeting may be taken without a meeting if, prior to such action, a written consent to the action is signed by all members of the Committee and such written consent is filed with the minutes of the proceedings of the Committee. A member of a Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The chairman of a Committee, or any other member or members of each Committee designated by the chairman of the Committee, may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

## 7.3 Powers and Duties of the Administrative Committee

The Administrative Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan;
- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;
- (c) To maintain all records that may be necessary for the administration of the Plan;
- (d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;
- (e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;
- (f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);
- (g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and

(h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

#### 7.4 Powers and Duties of the Investment Committee

The Investment Committee, shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To select types of investment and the actual investments against which earnings and losses will be measured;
- (b) To oversee any rabbi trust; and
- (c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

#### 7.5 Construction and Interpretation

The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of this Plan and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or Beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

#### 7.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the Compensation of all Participants, their death or other events which cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

#### 7.7 Committee Compensation, Expenses and Indemnity

- (a) The members of the Committees shall serve without compensation for their services hereunder.
- (b) The Committees are authorized to employ such legal counsel as they may deem advisable to assist in the performance of their duties hereunder.
- (c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all

expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

7.8 Disputes

The Company's standardized "Northrop Grumman Nonqualified Retirement Plans Claims and Appeals Procedures" shall apply in handling claims and appeals under the Plan.

**ARTICLE VIII**  
**MISCELLANEOUS**

8.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

8.2 Restriction Against Assignment

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 5.2 will not be treated as violations of this Section.

(c) Notwithstanding the foregoing, all or a portion of a Participant's Account balance may be paid to another person as specified in a domestic relations order that the Administrative Committee determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

- (1) issued pursuant to a State's domestic relations law;
- (2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;
- (3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and
- (4) meets such other requirements established by the Administrative Committee.

The Administrative Committee shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Administrative Committee may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

#### 8.3 Restriction Against Double Payment

If a court orders an assignment of benefits despite the previous Section, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

#### 8.4 Withholding

There shall be deducted from each payment made under the Plan or any other Compensation payable to the Participant (or Beneficiary) all taxes which are required to be withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

#### 8.5 Amendment, Modification, Suspension or Termination

The Administrative Committee may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination may reduce a Participant's Account balance below its dollar value immediately prior to the amendment. The preceding sentence is not intended to protect Participants against investment

losses. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and as the time described in Article VI, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

Notwithstanding the foregoing, no amendment of the Plan shall apply to amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to amounts that are "grandfathered" and exempt from the requirements of Code section 409A.

#### 8.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

#### 8.7 Receipt or Release

Any payment to a Participant or the Participant's Beneficiary in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Committees and the Affiliated Companies. The Administrative Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

#### 8.8 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

#### 8.9 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan, any Trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

#### 8.10 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

#### 8.11 2001 Reorganization

Effective as of the 2001 Reorganization Date in (d), the corporate structure of Northrop Grumman Corporation and its affiliates was modified. Effective as of the Litton Acquisition Date in (e), Litton Industries, Inc. was acquired and became a subsidiary of the Northrop Grumman Corporation (the "Litton Acquisition").

(a) The former Northrop Grumman Corporation was renamed Northrop Grumman Systems Corporation. It became a wholly-owned subsidiary of the new parent of the reorganized controlled group.

(b) The new parent corporation resulting from the restructuring is called Northrop Grumman Corporation. All references in this Plan to the former Northrop Grumman Corporation and its Board of Directors now refer to the new parent corporation bearing the same name and its Board of Directors.

(c) As of the 2001 Reorganization Date, the new Northrop Grumman Corporation became the sponsor of this Plan, and its Board of Directors assumed authority over this Plan.

(d) 2001 Reorganization Date. The date as of which the corporate restructuring described in (a) and (b) occurred.

(e) Litton Acquisition Date. The date as of which the conditions for the completion of the Litton Acquisition were satisfied in accordance with the "Amended and Restated Agreement and Plan of Merger Among Northrop Grumman Corporation, Litton Industries, Inc., NNG, Inc., and LII Acquisition Corp.

#### 8.12 Liabilities Transferred to HII

Northrop Grumman Corporation distributed its interest in Huntington Ingalls Industries, Inc. ("HII") to its shareholders on March 31, 2011 (the "HII Distribution Date"). Pursuant to an agreement between Northrop Grumman Corporation and HII, on the HII Distribution Date certain employees and former employees of HII ceased to participate in the Plan and the liabilities for these participants' benefits under the Plan were transferred to HII. On and after the HII Distribution Date, the Company and the Plan, and any successors thereto, shall have no further obligation or liability to any such participant with respect to any benefit, amount, or right due under the Plan.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 28th day of March, 2016.

NORTHROP GRUMMAN CORPORATION

By: /s/ Denise M. Peppard  
Denise M. Peppard  
Corporate Vice President and  
Chief Human Resources Officer



## APPENDIX A

### 2005 TRANSITION RELIEF

The following provisions apply only during 2005, pursuant to transition relief granted in IRS Notice 2005-1:

#### A.1 Cash-Out

Participants Separating from Service during 2005 for any reason before age 55 will receive an immediate lump sum distribution of their Account balances. Other Participants Separating from Service in 2005 will receive payments in accordance with their prior elections.

#### A.2 Elections

During the Plan's open enrollment period in June 2005 Participants may fully or partially cancel 2005 deferral elections and receive in 2005 a refund of amounts previously deferred in 2005.

In addition, individuals working in Company facilities impacted by Hurricane Katrina may stop or reduce 2005 elective contributions to the Plan at any time during 2005. All payments under this Section A.2 will be made before the end of calendar year 2005.

#### A.3 Key Employees

Key Employees Separating from Service on or after July 1, 2005, with distributions subject to Code section 409A and scheduled for payment in 2006 within six months of Separation from Service, may choose I or II below, subject to III:

- I. Delay the distributions described above for six months from the date of Separation from Service. The delayed payments will be paid as a single sum with interest at the end of the six month period, with the remaining payments resuming as scheduled.
- II. Accelerate the distributions described above into a payment in 2005 without interest adjustments.
- III. Key Employees must elect I or II during 2005.

## APPENDIX B

### DISTRIBUTION RULES FOR PRE-2005 AMOUNTS

Distribution of amounts earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) are exempt from the requirements of Code section 409A and shall be made in accordance with the Plan terms as in effect on December 31, 2004 and as summarized in the following provisions.

#### B.1 Distribution of Contributions

##### (a) Distributions Upon Early Termination

(1) Voluntary Termination. If a Participant voluntarily terminates employment with the Affiliated Companies before age 55 or Disability, distribution of his or her Account will be made in a lump sum on the Participant's Payment Date.

(2) Involuntary Termination. If a Participant involuntarily terminates employment with the Affiliated Companies before age 55, distribution of his or her Account will generally be made in quarterly installments over a 5, 10 or 15-year period, commencing on the Participant's Payment Date, in accordance with the Participant's original election on his or her deferral election form. Payment will be made in a lump sum if the Participant had originally elected a lump sum, if the Account balance is \$50,000 or less, or if the Administrative Committee so requires.

(b) Distribution After Retirement, Disability or Death. In the case of a Participant who separates from service with the Affiliated Companies on account of Retirement, Disability or death and has an Account balance of more than \$50,000, the Account shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 10 years commencing on the Participant's Payment Date.

(1) An optional form of benefit may be elected by the Participant, on the form provided by Administrative Committee, during his or her initial election period from among those listed below:

- (A) A lump sum distribution on the Participant's Payment Date.
- (B) Quarterly installments over 5 years beginning on the Participant's Payment Date.
- (C) Quarterly installments over 10 years beginning on the Participant's Payment Date.
- (D) Quarterly installments over 15 years beginning on the Participant's Payment Date.

(2) A Participant from time to time may modify the form of benefit that he or she has previously elected. Upon his or her separation from service, the most recently elected form of distribution submitted at least 12 months prior to separation will govern. If no such election exists, distributions will be paid under the 10-year installment method.

(3) In the case of a Participant who terminates employment with the Affiliated Companies on account of Retirement, Disability or death with an Account balance of \$50,000 or less, the Account shall be paid to the Participant in a lump sum distribution on the Participant's Payment Date.

(4) In general, upon the Participant's death, payment of any remaining Account balance will be made to the Beneficiary in a lump sum on the Payment Date. But the Beneficiary will receive any remaining installments (starting on the Payment Date) if the Participant was receiving installments, or if the Participant died on or after age 55 with an Account balance over \$50,000 and with an effective installment payout election in place. In such cases, the Beneficiary may still elect a lump sum payment of the remaining Account balance, but only with the Administrative Committee's consent.

(c) Distribution With Scheduled Withdrawal Date. A Participant who has elected a Scheduled Withdrawal Date for a distribution while still in the employ of the Affiliated Companies, will receive the designated portion of his or her Account as follows:

(1) A Participant's Scheduled Withdrawal Date can be no earlier than two years from the last day of the Plan Year for which the deferrals of Compensation are made.

(2) A Participant may extend the Scheduled Withdrawal Date for any Plan Year, provided such extension occurs at least one year before the Scheduled Withdrawal Date and is for a period of not less than two years from the Scheduled Withdrawal Date. The Participant shall have the right to twice modify any Scheduled Withdrawal Date.

(3) Payments under this subsection may be in the form of a lump sum, or 2, 3, 4 or 5-year quarterly installments. The default form will be a lump sum. If the Account balance to be distributed is \$25,000 or less, payment will automatically be made in a lump sum. Payments will commence on the Scheduled Withdrawal Date.

(4) In the event a Participant terminates employment with the Affiliated Companies prior to the commencement or completion of a distribution under this subsection, the portion of the Participant's Account associated with a Scheduled Withdrawal Date which has not been distributed prior to such termination shall be distributed in accordance with Section B.1(a) and (b) along with the remainder of the Account.

## B.2 Early Non-Scheduled Distributions

A Participant shall be permitted to elect an Early Distribution from his or her Account prior to a Payment Date under Section B.1, subject to the following restrictions:

(a) The election to take an Early Distribution shall be made by filing a form provided by and filed with the Administrative Committee prior to the end of any calendar month.

(b) The amount of the Early Distribution shall equal up to 90% of his or her Account balance.

(c) The amount described in subsection (b) above shall be paid in a lump sum as of a date after the receipt by the Administrative Committee of the request for a withdrawal under this Section. The exact date will be determined by the Administrative Committee to allow time for administrative processing.

(d) A Participant shall forfeit 10% of the amount of the requested distribution. The Affiliated Companies shall have no obligation to the Participant or his or her Beneficiary with respect to such forfeited amount.

(1) Example 1: A Participant requests a distribution of 100% of the Account. The Participant receives 90%. The amount forfeited is 10% of the Account.

(2) Example 2: A Participant requests a distribution of 50% of the Account. The Participant receives 45%. The amount forfeited is 5% of the Account.

(e) All distributions shall be made on a pro rata basis from among a Participant's investment subaccounts.

### B.3 Hardship Distribution

A Participant shall be permitted to elect a Hardship Distribution from his or her Account prior to a Payment Date under Section B.1, subject to the following restrictions:

(a) The election to take a Hardship Distribution shall be made by filing a form provided by and filed with the Administrative Committee prior to the end of any calendar month.

(b) The Administrative Committee shall have made a determination that the requested distribution constitutes a Hardship Distribution.

(c) The amount determined by the Administrative Committee as a Hardship Distribution shall be paid in a lump sum as of a date after the approval by the Administrative Committee of the request for a withdrawal under this Section. The exact date will be determined by the Administrative Committee to allow time for administrative processing.

### B.4 Plan Termination

In the event that this Plan is terminated, the amounts allocated to a Participant's Account shall be distributed to the Participant or, in the event of his or her death, to his or her Beneficiary in a lump sum.

## APPENDIX C

### TRANSFER OF LIABILITIES – NORTHROP GRUMMAN EXECUTIVE DEFERRED COMPENSATION PLAN

#### C.1 Background

Effective March 1, 2001, all liabilities under the Northrop Grumman Executive Deferred Compensation Plan other than the Estate Enhancement Program Account, were transferred to this Plan. This Appendix describes the treatment of those liabilities (plus earnings) (“Transferred Liabilities”) and the Participant to whom those liabilities are owed (“Transferred Participant”).

#### C.2 Treatment of Transferred Liabilities

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

#### C.3 Investments

The Transferred Participant may make investment elections for the Transferred Liabilities in accordance with Section 3.3. Section 3.4 will also apply.

#### C.4 Distributions

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Appendix B. The following exceptions and special rules apply:

##### (a) Section B.1

(1) For purposes of Sections B.1(a)(2) and B.1(b)(1), the Transferred Participant will be deemed to have made an election of 5 or 10-year installments corresponding to his elections of 5 or 10-year installments under Section 6.9(b)(2) of the Northrop Grumman Executive Deferred Compensation Plan.

(2) The Transferred Participant may utilize Section B.1(b)(2) to vary the form of his distribution.

(3) Distributions under Section B.1(c) are not available.

(b) Section B.2. The Early Non-Scheduled Distribution election is available. The Transferred Liabilities will be aggregated with any other amounts in the Transferred Participant’s Account for purposes of distributions under Section B.2.

(c) Sections 6.3-6.6. These Sections are fully applicable.

C.5 Other Provisions

The Transferred Liabilities and the Transferred Participant will be fully subject to the provisions of Articles IV, V, VII and VIII.

**APPENDIX D**

**TRANSFER OF LIABILITIES –  
AEROJET-GENERAL LIABILITIES**

**D.1 Background**

(a) Effective as of the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation (the “APA”), certain liabilities (“Transferred Liabilities”) under the Benefits Restoration Plan for Salaried Employees of GenCorp Inc. and Certain Subsidiary Companies and the GenCorp Inc. and Participating Subsidiaries Deferred Bonus Plan were transferred to this Plan.

(b) The transfer took place pursuant to section 10.6 of the APA, under which Northrop Grumman acquired the Azusa and Colorado Operations units from Aerojet-General Corporation. That section reads:

\* \* \* \* \*

**10.6 Unfunded Deferred Compensation**

(a) Subject to legal requirements for employee acquiescence, as of the effective time of the Closing, the Purchaser shall assume any and all obligations of the Seller to pay any and all unfunded deferred compensation as set forth on Schedule 10.6 for all Transferring Employees, provided such benefits are adequately reflected on the Balance Sheet.

(b) The Seller shall retain any and all legal obligation to pay any and all unfunded deferred compensation for all Aerojet Employees that are not Transferring Employees.

\* \* \* \* \*

(c) This Appendix is intended to effectuate the assumption of certain of the liabilities contemplated by section 10.6 of the APA. It describes the treatment of those liabilities (plus earnings) and the Participants to whom those liabilities are owed (“Transferred Participants”).

(d) The only liabilities assumed by this Plan are:

- (1) those from the GenCorp Inc. and Participating Subsidiaries Deferred Bonus Plan, and

(2) those liabilities under the Benefits Restoration Plan for Salaried Employees of GenCorp Inc. and Certain Subsidiary Companies which represent supplements with respect to an Aerojet defined contribution plan.

No liabilities are assumed which represent supplements with respect to an Aerojet defined benefit plan.

(e) The assumed liabilities will be represented by starting Account balances for the Transferred Participants, determined in the discretion of the Administrative Committee.

#### D.2 Treatment of Transferred Liabilities

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

#### D.3 Investments

The Transferred Participants may make investment elections for the Transferred Liabilities in accordance with Section 3.3. Section 3.4 will also apply.

#### D.4 Distributions

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Appendix B. The following exceptions and special rules apply:

##### (a) Section B.1

(1) For purposes of Sections B.1(a)(2) and B.1(b)(1), the Transferred Participants will be deemed to have made an election of 10-year installments.

(2) The Transferred Participants may utilize Section B.1(b)(2) to vary the form of their distributions.

(3) Distributions under Section B.1(c) are not available.

(b) Section B.2. The Early Non-Scheduled Distribution election is available. The Transferred Liabilities will be aggregated with any other amounts in the Transferred Participants' Accounts for purposes of distributions under Section B.2.

(c) Sections 6.3-6.6. These Sections are fully applicable.

#### D.5 Other Provisions

The Transferred Liabilities and the Transferred Participants will be fully subject to the provisions of Articles IV, V, VII and VIII.



## APPENDIX E

### TRANSFER OF LIABILITIES – TASC, INC. SUPPLEMENTAL RETIREMENT PLAN

#### E.1 Background

(a) Effective as of the TASC Merger Date, all liabilities under the TASC, Inc. Supplemental Retirement Plan were transferred to this Plan. This Appendix describes the treatment of those liabilities (plus earnings) (“Transferred Liabilities”) and the Participant to whom those liabilities are owed (“Transferred Participant”).

(b) The “TASC Merger Date” is March 28, 2003 or such other date that the Northrop Grumman Director of Benefits Administration and Services determines is feasible. If the Northrop Grumman Director of Benefits Administration and Services determines that March 28, 2003 is not feasible, he shall identify in writing, before March 28, 2003, a date that is feasible.

#### E.2 Treatment of Transferred Liabilities

The Transferred Liabilities will generally be treated under the Plan like Compensation deferred in accordance with Article III.

#### E.3 Investments

The Transferred Participant may make investment elections for the Transferred Liabilities in accordance with Section 3.3. Section 3.4 will also apply.

#### E.4 Distributions

Distributions of amounts corresponding to the Transferred Liabilities will generally be made in accordance with the provisions of Appendix B.

#### E.5 Other Provisions

The Transferred Liabilities and the Transferred Participant will be fully subject to the provisions of Articles IV, V, VII and VIII.

## **APPENDIX F**

### **2008 TRANSITION RELIEF**

Pursuant to transition rules under Code section 409A, during a specified period in 2008, Participants who had previously elected in 2008 to defer amounts that would otherwise be payable in 2009 may make a new election with respect to such amounts. Such an election must provide for a lower deferral percentage for each compensation category than the originally elected percentage. And if a Participant makes such an election, the Participant may also make a new distribution election (in accordance with the Plan's distribution rules in Section 6.1) for such amounts.

## **APPENDIX G**

### **COMMITTEES AND APPOINTMENTS**

Notwithstanding anything to the contrary in this Plan, effective October 25, 2011, the Chief Executive Officer of Northrop Grumman Corporation shall appoint, and shall have the power to remove, the members of (1) an Administrative Committee that shall have responsibility for administering the Plan (including as such responsibilities are described in Article VII of the Plan) and (2) an Investment Committee that shall have responsibility for overseeing any rabbi trusts or other informal funding for the Plan.

NORTHROP GRUMMAN  
OFFICERS RETIREMENT ACCOUNT CONTRIBUTION PLAN

(Amended and Restated Effective as of April 1, 2016)

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## INTRODUCTION

The Northrop Grumman Officers Retirement Account Contribution Plan (the "Plan") was adopted effective as of October 1, 2009. The Plan is hereby amended and restated effective as of April 1, 2016, except as otherwise provided. This restatement amends the January 1, 2015 restatement of the Plan.

This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the "Code") and official guidance issued thereunder, and (2) to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

## **ARTICLE I**

### DEFINITIONS

#### 1.1 Definitions

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

"Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.

"Administrative Committee" means the committee in charge of Plan administration, as described in Article VI.

"Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).

"Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.

(a) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.

(b) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.

No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company. A Participant will automatically revoke a designation of a spouse as primary beneficiary upon the dissolution of their marriage.

(c) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (1) to that person's living parent(s) to act as custodian, (2) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (3) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company.

(d) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Committees" shall mean the Committees appointed as provided in Article VI.

"Company" shall mean Northrop Grumman Corporation and any successor.

"Company Contributions" shall mean credits to a Participant's Account, as described in Section 3.2.



"Compensation" shall be "compensation" as defined by Section 5.01 of the NGSP.

"Compensation Committee" shall mean the Compensation Committee of the Company's Board of Directors.

"Disability" or "Disabled" shall mean the Participant's inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

"Eligible Employee" shall mean any Employee who meets the following conditions:

(a) Prior to January 1, 2015:

(1) he or she is an elected or appointed officer of an Affiliated Company other than Vinnell Corporation, Component Technologies or Premier America Credit Union;

(2) he or she is eligible to participate in the Northrop Grumman Savings Plan;

(3) he or she is not eligible to actively accrue benefits under Appendix F ("CPC SERP"), Appendix G ("OSERP"), or Appendix I ("OSERP II") of the Northrop Grumman Supplemental Plan 2; and

(4) he or she is not otherwise designated as being ineligible to participate in the Plan.

Notwithstanding the foregoing, effective October 14, 2013, a country executive outside the U.S. reporting to the Corporate Global Business Development Officer who is employed by a U.S. entity, on a U.S. payroll and participating in U.S. benefit plans and who will serve as an expatriate on an overseas assignment in this role shall be treated as an Eligible Employee.

(b) On or after January 1, 2015:

(1) he or she is an elected or appointed officer of an Affiliated Company other than Vinnell Corporation, Component Technologies or Premier America Credit Union; and

(2) he or she is eligible to participate in the Northrop Grumman Savings Plan; and

(3) he or she is not otherwise designated as being ineligible to participate in the Plan.

Notwithstanding the foregoing, (i) a country executive outside the U.S. reporting to the Corporate Global Business Development Officer who is employed by a U.S. entity, on a U.S. payroll and participating in U.S. benefit plans and who will serve as an expatriate on an overseas assignment in this role shall be treated as an Eligible Employee, and (ii) an executive on U.S. payroll who was serving as a Company Vice President and continues employment as an executive but in a non-Vice President position during secondment to an affiliated company shall be treated as an Eligible Employee able to continue participation in the Plan at the same level as appointed officers of the Company, subject to a designation of eligibility (or subsequent ineligibility) by either the Company's Chief Human Resources Officer or the Vice President of Compensation (as such titles may be modified from time to time).

"Employee" shall mean any common law employee of the Affiliated Companies who is classified as an employee by the Affiliated Companies.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

"Investment Committee" means the committee in charge of investment aspects of the Plan, as described in Article VI.

"Key Employee" means an employee who on the date of his Separation from Service is treated as a "specified employee" under Code section 409A in accordance with a uniform Company policy.

"NGSP" means the Northrop Grumman Savings Plan.

"Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II.

"Plan" shall be the Northrop Grumman Officers Retirement Account Contribution Plan.

"Separation from Service" means a "separation from service" within the meaning of Code section 409A.

## **ARTICLE II**

### **PARTICIPATION**

#### **2.1 In General**

(a) An Employee shall automatically become a Participant and eligible for Company Contributions as of the later of October 1, 2009 or the date the Employee becomes an Eligible Employee.

(b) An individual will cease to be a Participant when he or she no longer has a positive balance in his or her Account.

## 2.2 Disputes as to Employment Status

(a) Because there may be disputes about an individual's proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.

(b) The Affiliated Companies will make the initial determination of an individual's employment status.

(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an "Eligible Employee" and he or she will not be entitled to participate in the Plan.

(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary of the plan or other actions are taken indicating that he or she may participate.

(c) Disputes may arise as to an individual's employment status. As part of the resolution of the dispute, an individual's status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees and will not be entitled to participate in the Plan.

## **ARTICLE III CREDITS TO ACCOUNTS**

### 3.1 Accounts

The Administrative Committee shall establish and maintain a recordkeeping Account for each Participant under the Plan.

### 3.2 Company Contribution Credits

If a Participant qualifies as an Eligible Employee during a payroll period, the Participant's Account shall be credited with a Company Contribution as soon as practicable after the end of the payroll period. The Company Contribution for a payroll period shall equal 4% of the Participant's Compensation for the payroll period.

### 3.3 Investment Elections

(a) The Investment Committee will establish a number of different investment funds or other investment options for the Plan. The Investment Committee may change the funds or other investment options from time to time, without prior notice to Participants.

(b) Participants may elect how future contributions and existing Account balances will be deemed invested in the various investment funds and may change their elections from time to time. If a Participant does not elect how future contributions will be deemed

invested, contributions will be deemed invested in the qualified default investment alternative ("QDIA") that applies to the Participant under the NGSP.

(c) Selections of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may prescribe rules that may include, among other matters, limitations on the amounts that may be transferred and procedures for electing transfers.

(2) The Administrative Committee may prescribe valuation rules for purposes of investment elections and transfers. Such rules may, in the Administrative Committee's discretion, use averaging methods to determine values and accrue estimated expenses. The Administrative Committee may change the methods it uses for valuation from time to time.

(3) The Administrative Committee may prescribe the periods and frequency with which Participants may change deemed investment elections and make transfers.

(4) The Administrative Committee may change its rules and procedures from time to time and without prior notice to Participants.

(d) Participant investment elections involving a Company stock investment fund (e.g., transfers into or out of the fund) may be restricted, including in accordance with Company policies generally applicable to employee transactions in Company stock.

### 3.4 Valuation of Accounts

(a) The valuation of Participants' Accounts will reflect earnings, losses, expenses and distributions, and will be made in accordance with the rules and procedures of the Administrative Committee.

(b) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(c) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(d) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

### 3.5 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies that it may use in meeting its obligations under the Plan. Any trust set up will be a rabbi trust and any assets placed in the trust shall continue for all purposes to be part of the general assets of the

Company and shall be available to its general creditors in the event of the Company's bankruptcy or insolvency.

3.6 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of the Company Contributions credited to their Accounts due to poor investment performance.

**ARTICLE IV**

**VESTING AND FORFEITURES**

4.1 In General

Except as provided in Section 4.2 below, a Participant shall become fully vested in his or her Account balance upon the earliest of the following dates, provided he or she is an Employee at such time: (i) the date he or she completes three years of service, (ii) the date of his or her 65<sup>th</sup> birthday, (iii) the date of his or her death, (iv) the date he or she becomes Disabled, or (v) the date Company Contributions are completely discontinued or the Plan is terminated. Notwithstanding the foregoing, any elected or appointed officer of an Affiliated Company as of December 31, 2011 shall be 100% vested in his or her Account balance upon entry to the Plan if the officer becomes a Participant in the Plan on January 1, 2015. Notwithstanding anything to the contrary, if a Participant terminates employment with the Affiliated Companies prior to vesting as set forth in this Section 4.1, his or her unvested Account balance and earnings thereon shall be immediately forfeited upon such termination. For this purpose, years of service shall be calculated in the same manner as for purposes of determining vesting in Retirement Account Contributions under the NGSP (including the treatment of a break in service).

4.2 Exceptions

The following exceptions apply to the vesting rules in Sections 4.1 above:

- (a) Forfeitures on account of a lost payee. See Section 5.5.
- (b) Forfeitures under an escheat law.
- (c) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (d) Expenses charged to a Participant's Account.
- (e) Investment losses.
- (f) Forfeitures due to certain competitive activities under Article VIII.

## ARTICLE V

### DISTRIBUTIONS

#### 5.1 Normal Distribution Rules

The vested balance in a Participant's Account shall be distributed in a lump sum upon a Participant's Separation from Service. Notwithstanding the foregoing, distribution will not be made to a Key Employee upon a Separation from Service until the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee).

At the discretion of the Administrative Committee, distribution may be made earlier or later than the date specified above, provided that the timing of any such distribution complies with Treas. Reg. section 1.409A-3(d) or any successor thereto.

#### 5.2 Effect of Taxation

If a Participant's benefits under the Plan are includible in income pursuant to Code section 409A, the Company shall have the discretion to accelerate the distribution of all or a portion of such includible benefits to the Participant, provided that the Participant shall not be given a direct or indirect election as to whether such discretion is exercised.

#### 5.3 Permitted Delays

Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Administrative Committee's reasonable anticipation of one or more of the following events:

- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (b) The making of the payment would violate Federal securities laws or other applicable law;
- (c) provided, that any payment delayed pursuant to this Section 5.3 shall be paid in accordance with Code section 409A.

#### 5.4 Payments Not Received At Death

In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check that has been issued by the Company. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

5.5 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required payment date, the amount allocated to the Participant's Account shall be forfeited.

5.6 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

**ARTICLE VI**

**ADMINISTRATION**

6.1 Committees

(a) The Administrative Committee shall be appointed by the Company.

(b) An Investment Committee (referred to together with the Administrative Committee as, the "Committees"), comprised of one or more persons, shall be appointed by and serve at the pleasure of the Board (or its delegate). The number of members comprising the Investment Committee shall be determined by the Board, which may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

6.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any determination of action of a Committee may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members of the Committee then in office. A member of a Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of each Committee designated by the Chairman may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

The Company shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The Administrative Committee shall conduct its business according to the provisions of this Article and the rules contained in the current edition of Robert's Rules of Order or such other rules of order the Administrative Committee may deem appropriate. The Administrative Committee shall hold meetings from time to time in any convenient location.

### 6.3 Powers and Duties of the Administrative Committee

The Administrative Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan and make all factual determinations;
- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;
- (c) To maintain all records that may be necessary for the administration of the Plan;
- (d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;
- (e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;
- (f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);
- (g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and
- (h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

### 6.4 Powers and Duties of the Investment Committee

The Investment Committee shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To select types of investment and the actual investments against which earnings and losses will be measured;
- (b) To oversee any rabbi trust; and
- (c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).



#### 6.5 Construction and Interpretation

The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, to make factual determinations and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or Beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

#### 6.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the compensation of all Participants, their death or other events that cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

#### 6.7 Committee Compensation, Expenses and Indemnity

(a) The members of the Committees shall serve without compensation for their services hereunder.

(b) The Committees are authorized to employ such accounting, consultants or legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

#### 6.8 Claims

The Company's standardized "Northrop Grumman Nonqualified Retirement Plans Claims and Appeals Procedures" (the "Claims Procedures") shall apply in handling claims and appeals under this Plan.

## ARTICLE VII

### MISCELLANEOUS

#### 7.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

#### 7.2 Restriction Against Assignment

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 4.2 will not be treated as violations of this Section.

(c) Notwithstanding the foregoing, all or a portion of a Participant's vested Account balance may be paid to another person as specified in a domestic relations order that the Administrative Committee determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

(1) issued pursuant to a State's domestic relations law;

(2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;

(3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and

(4) meets such other requirements established by the Administrative Committee.

The Administrative Committee shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Administrative Committee may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

### 7.3 Restriction Against Double Payment

If a court orders an assignment of benefits despite Section 7.2, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

### 7.4 Withholding

There shall be deducted from each payment made under the Plan or any other compensation payable to the Participant (or Beneficiary) all taxes, which are required to be withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

### 7.5 Amendment, Modification, Suspension or Termination

The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's Account balance as of the date of such amendment or termination. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and at the time described in Article V, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

### 7.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

### 7.7 Receipt and Release

Any payment to a payee in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan, the Committees and the

Affiliated Companies. The Administrative Committee may require such payee, as a condition precedent to such payment, to execute a receipt and release to such effect.

7.8 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

7.9 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan, any trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

7.10 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

7.11 Liabilities Transferred to HII

Northrop Grumman Corporation distributed its interest in Huntington Ingalls Industries, Inc. ("HII") to its shareholders on March 31, 2011 (the "HII Distribution Date"). Pursuant to an agreement between Northrop Grumman Corporation and HII, on the HII Distribution Date certain employees and former employees of HII ceased to participate in the Plan and the liabilities for these participants' benefits under the Plan were transferred to HII. On and after the HII Distribution Date, the Company and the Plan, and any successors thereto, shall have no further obligation or liability to any such participant with respect to any benefit, amount, or right due under the Plan.

## **ARTICLE VIII**

### **FORFEITURE OF BENEFITS**

8.1 In General

Notwithstanding any other provision of this Plan, this Article VIII applies to the portion of a Participant's Account balance accrued after 2011.

## 8.2 Determination of a Forfeiture Event

The Compensation Committee or its delegate will, in its sole discretion, determine whether a Forfeiture Event (as defined in Section 8.4) has occurred; provided that no Forfeiture Event shall be incurred by a Participant who has a termination of employment due to mandatory retirement pursuant to Company policy. Such a determination may be made by the Compensation Committee or its delegate for up to one year following the date that the Compensation Committee has actual knowledge of the circumstances that could constitute a Forfeiture Event.

## 8.3 No Forfeiture Event for Certain Terminations after Change in Control

Notwithstanding the foregoing, no Forfeiture Event shall be incurred by a Participant who, within the two year period following a Change in Control (as defined in the Northrop Grumman 2011 Long-Term Incentive Stock Plan or successor plan in effect at the time the relevant event occurs ("LTISP")), is involuntarily terminated for reasons other than Cause or voluntarily terminates for Good Reason. The terms "Cause" and "Good Reason" shall be defined in accordance with the LTISP and its associated grant certificates. This Article VIII may not be amended during the two year period commencing on the date of such a Change in Control.

## 8.4 Forfeiture Event Defined

A "Forfeiture Event" means that, while employed by any of the Affiliated Companies or at any time in the two year period immediately following the Participant's last day of employment by one of the Affiliated Companies, the Participant, either directly or indirectly through any other person, is employed by, renders services (as a director, consultant or otherwise) to, has any ownership interest in, or otherwise participates in the financing, operation, management or control of, any business that is then in competition with the business of any of the Affiliated Companies. A Participant will not, however, be considered to have incurred a Forfeiture Event solely by reason of owning up to (and not more than) two percent (2%) of any class of capital stock of a corporation that is registered under the Securities Exchange Act of 1934.

## 8.5 Amount of Forfeiture

(a) If the Compensation Committee or its delegate determines that a Forfeiture Event has occurred, the relevant Participant may forfeit up to 100% of his or her Account balance accrued after 2011. The amount forfeited, if any, will be determined by the Compensation Committee or its delegate in its sole discretion, and may consist of all or a portion of the Account balance accrued after 2011 and not yet paid.

(b) Any forfeiture pursuant to this Article VIII will also apply with respect to survivor benefits or benefits assigned under a Qualified Domestic Relations Order.

## 8.6 Notice and Claims Procedure

(a) The Company will provide timely notice to any Participant who incurs a forfeiture pursuant to this Article VIII. Any delay by the Company in providing such notice will

not otherwise affect the amount or timing of any forfeiture determined by the Compensation Committee or its delegate.

(b) The procedures set forth in the Claims Procedures will apply to any claims and appeals arising out of or related to any forfeiture under this Article VIII, except as provided below:

(1) The Compensation Committee, or its delegate, will serve in place of the designated decision-makers on any such claims and appeals.

(2) After a claimant has exhausted his remedies under the Claims Procedures, including the appeal stage, the claimant forgoes any right to file a civil action under ERISA section 502(a), but instead may present any claims arising out of or related to any forfeiture under this Article VIII to final and binding arbitration in the manner described below:

(A) A claimant must file a demand for arbitration no later than one year following a final decision on the appeal under the Claims Procedures. After such period, no claim for arbitration may be filed, and the decision becomes final. A claimant must deliver a demand for arbitration to the Company's General Counsel.

(B) Any claims presented shall be settled by arbitration consistent with the Federal Arbitration Act, and consistent with the then-current Arbitration Rules and Procedures for Employment Disputes, or equivalent, established by JAMS, a provider of private dispute resolution services.

(C) The parties will confer to identify a mutually acceptable arbitrator. If the parties are unable to agree on an arbitrator, the parties will request a list of proposed arbitrators from JAMS and:

(i) If there is an arbitrator on the list acceptable to both parties, that person will be selected. If there is more than one arbitrator on the list acceptable to both parties, each party will rank each arbitrator in order of preference, and the arbitrator with the highest combined ranking will be selected.

(ii) If there is no arbitrator acceptable to both parties on the list, the parties will alternately strike names from the list until only one name remains, who will be selected.

(D) The fees and expenses of the arbitrator will be borne equally by the claimant and the Company. Each side will be entitled to use a representative, including an attorney, at the arbitration. Each side will bear its own deposition, witness, expert, attorneys' fees, and other expenses to the same extent as if the matter were being heard in court. If,

however, any party prevails on a claim, which (if brought in court) affords the prevailing party attorneys' fees and/or costs, then the arbitrator may award reasonable fees and/or costs to the prevailing party to the same extent as would apply in court. The arbitrator will resolve any dispute as to who is the prevailing party and as to the reasonableness of any fee or cost.

(E) The arbitrator will take into account all comments, documents, records, other information, arguments, and theories submitted by the claimant relating to the claim, or considered by the Compensation Committee or its delegate relating to the claim, but only to the extent that it was previously provided as part of the initial decision or appeal request on the claim.

The arbitrator may grant a claimant's claim only if the arbitrator determines it is justified based on: (i) the Compensation Committee, or its delegate erred upon an issue of law in the appeal request, or (ii) the Compensation Committee's, or its delegate's, findings of fact during the appeal process were not supported by the evidence.

(F) The arbitrator shall issue a written opinion to the parties stating the essential findings and conclusions upon which the arbitrator's award is based. The decision of the arbitrator will be final and binding upon the claimant and the Company. A reviewing court may only confirm, correct, or vacate an award in accordance with the standards set forth in the Federal Arbitration Act, 9 U.S.C. §§ 1-16.

(G) In the event any court finds any portion of this procedure to be unenforceable, the unenforceable section(s) or provision(s) will be severed from the rest, and the remaining section(s) or provisions(s) will be otherwise enforced as written.

#### 8.7 Application

Should a Forfeiture Event occur, this Article VIII is in addition to, and does not in any way limit, any other right or remedy of the Affiliated Companies, at law or otherwise, in connection with such Forfeiture Event.

\* \* \*

IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer on this 28th day of March, 2016.

NORTHROP GRUMMAN CORPORATION

By: /s/ Denise M. Peppard  
Denise M. Peppard  
Corporate Vice President and  
Chief Human Resources Officer



## **APPENDIX A – COMMITTEES AND APPOINTMENTS**

Notwithstanding anything to the contrary in this Plan, effective as of October 25, 2011, the Chief Executive Officer of the Company shall appoint, and shall have the power to remove, the members of (1) an Administrative Committee that shall have responsibility for administering the Plan (including as such responsibilities are described in Article VI of the Plan) and (2) an Investment Committee that shall have responsibility for overseeing any rabbi trusts or other informal funding for the Plan.

NORTHROP GRUMMAN  
SAVINGS EXCESS PLAN

(Amended and Restated Effective as of April 1, 2016)

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## **INTRODUCTION**

The Northrop Grumman Savings Excess Plan (the "Plan") was last amended and restated effective as of January 1, 2016. This restatement amends that version of the Plan, and is effective April 1, 2016, and does not affect amounts earned and vested under the Plan prior to 2005.

Northrop Grumman Corporation (the "Company") established this Plan for participants in the Northrop Grumman Savings Plan who exceed the limits under sections 401(a)(17) or 415(c) of the Internal Revenue Code. This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the "Code") and official guidance issued thereunder (except with respect to amounts covered by Appendix B), and (2) to be "a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

## **ARTICLE 1**

### **DEFINITIONS**

#### **1.1 Definitions**

Whenever the following words and phrases are used in this Plan, with the first letter capitalized, they shall have the meanings specified below.

- (a) "Account" shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.
- (b) "Administrative Committee" means the committee in charge of Plan administration, as described in Article VII.
- (c) "Affiliated Companies" shall mean the Company and any entity affiliated with the Company under Code sections 414(b) or (c).
- (d) "Base Salary" shall mean a Participant's annual base salary, excluding bonuses, commissions, incentive and all other remuneration for services rendered to the Affiliated Companies and prior to reduction for any salary contributions to a plan established pursuant to section 125 of the Code or qualified pursuant to section 401(k) of the Code.
- (e) "Basic Contributions" shall have the same meaning as that term is defined in the NGSP.
- (f) "Beneficiary" or "Beneficiaries" shall mean the person or persons, including a trustee, personal representative or other fiduciary, last designated in writing by a

Participant in accordance with procedures established by the Administrative Committee to receive the benefits specified hereunder in the event of the Participant's death.

(1) No Beneficiary designation shall become effective until it is filed with the Administrative Committee.

(2) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.

No designation of a Beneficiary other than the Participant's spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant's surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant's estate (which shall include either the Participant's probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant's estate duly appointed and acting in that capacity within 90 days after the Participant's death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant's death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company. Effective January 1, 2007, a Participant will automatically revoke a designation of a spouse as primary beneficiary upon the dissolution of their marriage.

(3) In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead be paid (a) to that person's living parent(s) to act as custodian, (b) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, or (c) if no parent of that person is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select another custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within 60 days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company.

(4) Payment by the Affiliated Companies pursuant to any unrevoked Beneficiary designation, or to the Participant's estate if no such designation exists, of all benefits owed hereunder shall terminate any and all liability of the Affiliated Companies.

(g) "Board" shall mean the Board of Directors of the Company.

(h) "Bonuses" shall mean the bonuses earned under the Company's formal incentive plans as defined by the Administrative Committee.

(i) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(j) "Committees" shall mean the Committees appointed as provided in Article VII.

(k) "Company" shall mean Northrop Grumman Corporation and any successor.

(l) "Company Contributions" shall mean contributions by the Company to a Participant's Account.

(m) "Compensation" shall be Compensation as defined by Section 5.01 of the NGSP.

(n) "Disability" or "Disabled" shall mean the Participant's inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.

(o) "Eligible Compensation" shall mean (1) Compensation prior to January 1, 2009, and (2) after 2008, Base Salary and Bonuses, reduced by the amount of any deferrals made from such amounts under the Northrop Grumman Deferred Compensation Plan. Notwithstanding the foregoing, effective January 1, 2017, Eligible Compensation shall not include any amount paid to an Eligible Employee following the end of the month first following the month in which the Eligible Employee has a Separation from Service.

(p) "Eligible Employee" shall mean any Employee who meets the following conditions:

(1) he or she is eligible to participate in the NGSP;

(2) he or she is classified by the Affiliated Companies as an Employee and not as an independent contractor;

and

(3) he or she meets any additional eligibility criteria set by the Administrative Committee. Additional eligibility criteria established by the Administrative Committee may include specifying classifications of Employees who are eligible to participate and the date as of which various groups of Employees will be eligible to participate. This includes, for example, Administrative Committee authority to delay eligibility for employees of newly acquired companies who become Employees.

(q) "Employee" shall mean any common law employee of the Affiliated Companies who is classified as an employee by the Affiliated Companies.

(r) "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

VII. (s) "Investment Committee" means the committee in charge of investment aspects of the Plan, as described in Article

(t) "Key Employee" means an employee who on the date of his Separation from Service is treated as a "specified employee" under Code section 409A in accordance with a uniform Company policy.

(u) "NGSP" means the Northrop Grumman Savings Plan.

(v) "Open Enrollment Period" means the period designated by the Administrative Committee for electing deferrals for the following Plan Year.

(w) "Participant" shall mean any Eligible Employee who participates in this Plan in accordance with Article II or any Employee who is a RAC Participant.

(x) "Payment Date" shall mean:

(1) for distributions upon early termination under Section B.1(a), a date after the end of the month in which termination of employment occurs; and

(2) for distributions after Retirement, Disability or death under Section B.1(b), a date after the end of the month in which occurs Retirement, the determination of Disability by the Administrative Committee, or the notification of the Administrative Committee of the Participant's death (or later qualification of the Beneficiary or Beneficiaries), as applicable.

The exact date in each case will be determined by the Administrative Committee to allow time for administrative processing.

(y) "Plan" shall be the Northrop Grumman Savings Excess Plan.

(z) "Plan Year" shall be the calendar year.

(aa) "RAC Contributions" shall mean the Company contributions under Section 3.2(b)(2) and Section 3.2(b)(4).

(bb) "RAC Participant" shall mean an Employee who is eligible to participate in the NGSP, receives Retirement Account Contributions under the NGSP, and is classified by the Affiliated Companies as an Employee and not as an independent contractor. Notwithstanding the foregoing, an Employee who becomes eligible to participate in the Officers Supplemental Executive Retirement Program II ("OSERP II") under the Northrop Grumman Supplemental Plan 2 shall immediately cease to be eligible for RAC Contributions.

(cc) "RAC Subaccount" shall mean the portion of a Participant's Account made up of RAC Contributions and earnings thereon.

(dd) "Retirement" shall mean termination of employment with the Affiliated Companies after reaching age 55.



(ee) "Separation from Service" or "Separates from Service" or "Separating from Service" means a "separation from service" within the meaning of Code section 409A.

## **ARTICLE II**

### **PARTICIPATION**

#### **2.1 In General**

(a) An Eligible Employee may become a Participant by complying with the procedures established by the Administrative Committee for enrolling in the Plan. Anyone who becomes an Eligible Employee will be entitled to become a Participant during an Open Enrollment Period.

(b) A RAC Participant will become a Participant when RAC Contributions are first made to his or her RAC Subaccount.

(c) An individual will cease to be a Participant when he or she no longer has a positive balance to his or her Account under the Plan.

#### **2.2 Disputes as to Employment Status**

(a) Because there may be disputes about an individual's proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.

(b) The Affiliated Companies will make the initial determination of an individual's employment status.

(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an "Eligible Employee" and he or she will not be entitled to participate in the Plan.

(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary of the plan and enrollment forms or other actions are taken indicating that he or she may participate.

(c) Disputes may arise as to an individual's employment status. As part of the resolution of the dispute, an individual's status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees and will not be entitled to participate in the Plan.

## ARTICLE III

### DEFERRAL ELECTIONS

#### 3.1 Elections to Defer Eligible Compensation

(a) Timing. An Eligible Employee who meets the requirements of Section 2.1(a) may elect to defer Eligible Compensation earned in a Plan Year by filing an election in the Open Enrollment Period for the Plan Year. For purposes of determining whether an election filed pursuant to this Section 3.1(a) applies, Eligible Compensation that is Base Salary shall be considered earned in the Plan Year in which, absent such election, it would otherwise be paid. An election to participate for a Plan Year is irrevocable.

(b) Election Rules. An Eligible Employee's election may be made in writing, electronically, or as otherwise specified by the Administrative Committee. Such election shall specify the Eligible Employee's rate of deferral for contributions to the Plan, which shall be between 1% and 50%, and shall address distribution of the deferred amounts as described in Section 6.1. All elections must be made in accordance with the rules, procedures and forms provided by the Administrative Committee. The Administrative Committee may change the rules, procedures and forms from time to time and without prior notice to Participants.

(c) Cancellation of Election. If a Participant becomes disabled (as defined under Code section 409A) during a Plan Year, his deferral election for such Plan Year shall be cancelled.

#### 3.2 Contribution Amounts

(a) Participant Contributions. An Eligible Employee's contributions under the Plan for a Plan Year will begin once his or her Compensation for the Plan Year exceeds the Code section 401(a)(17) limit for the Plan Year. The Participant's elected deferral percentage will be applied to his or her Eligible Compensation for the balance of the Plan Year.

(b) Company Contributions. The Company will make Company Contributions to a Participant's Account as provided in (1), (2) and (3) below.

(1) Matching Contributions. The Company will make a Company Contribution equal to the matching contribution rate for which the Participant is eligible under the NGSP for the Plan Year multiplied by the amount of the Participant's contributions under subsection (a).

(2) RAC Contributions. Effective July 1, 2008, the Company will make RAC Contributions equal to a percentage of a RAC Participant's Compensation for a Plan Year in excess of the Code section 401(a)(17) limit. The percentage used to calculate a RAC Participant's contribution for the 2016 Plan Year and each subsequent Plan Year shall be based on the RAC Participant's age on December 31, 2016 as follows:

- (i) Three percent if not yet age 35.

(ii) Four percent if 35 or older, but not yet 50.

(iii) Five percent if age 50 or older.

(3) Make-Up Matching Contributions for Contribution Limitation. If an Eligible Employee's Basic Contributions under the NGSP for a Plan Year are limited by the Code section 415(c) contribution limit before the Eligible Employee's Basic Contributions under the NGSP are limited by the Code section 401(a)(17) compensation limit, the Company will make a Company Contribution equal to the amount of matching contributions for which the Eligible Employee would have been eligible under the NGSP were Code section 415(c) not applied, reduced by the actual amount of matching contributions made for the Plan Year under the NGSP.

(4) Make-Up RAC Contributions for Contribution Limitation. If an Eligible Employee is a RAC Participant and his Retirement Account Contributions under the NGSP for a Plan Year are limited by the Code section 415(c) contribution limit before the RAC Participant's Retirement Account Contributions under the NGSP are limited by the Code section 401(a)(17) compensation limit, the Company will make a Company Contribution equal to the amount of Retirement Account Contributions for which the RAC Participant would have been eligible under the NGSP were Code section 415(c) not applied, reduced by the actual amount of Retirement Account Contributions made for the Plan Year under the NGSP.

### 3.3 Crediting of Deferrals

Amounts deferred by a Participant under the Plan shall be credited to the Participant's Account as soon as practicable after the amounts would have otherwise been paid to the Participant. Company contributions other than those under Section 3.2(b)(3) and Section 3.2(b)(4) will be credited to Accounts as soon as practicable after each payroll cycle in which they accrue. Company contributions under Section 3.2(b)(3) and Section 3.2(b)(4) will be credited to Accounts as soon as practicable after each Plan Year.

### 3.4 Investment Elections

(a) The Investment Committee will establish a number of different investment funds or other investment options for the Plan. The Investment Committee may change the funds or other investment options from time to time, without prior notice to Participants.

(b) Participants may elect how their future contributions and existing Account balances will be deemed invested in the various investment funds and may change their elections from time to time. If a Participant does not elect how future contributions will be deemed invested, contributions will be deemed invested in the qualified default investment alternative ("QDIA") that applies to the Participant under the NGSP.

(c) The deemed investments for a RAC Participant's RAC Subaccount must be the same as the deemed investments for the RAC Participant's Company contributions under Section 3.2(b)(1).

(d) Selections of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

(1) The Administrative Committee may prescribe rules that may include, among other matters, limitations on the amounts that may be transferred and procedures for electing transfers.

(2) The Administrative Committee may prescribe valuation rules for purposes of investment elections and transfers. Such rules may, in the Administrative Committee's discretion, use averaging methods to determine values and accrue estimated expenses. The Administrative Committee may change the methods it uses for valuation from time to time.

(3) The Administrative Committee may prescribe the periods and frequency with which Participants may change deemed investment elections and make transfers.

(4) The Administrative Committee may change its rules and procedures from time to time and without prior notice to Participants.

(e) Effective January 13, 2011, Participant investment elections involving a Company stock investment fund (e.g., transfers into or out of the fund) may be restricted, including in accordance with Company policies generally applicable to employee transactions in Company stock.

### 3.5 Investment Return Not Guaranteed

Investment performance under the Plan is not guaranteed at any level. Participants may lose all or a portion of their contributions due to poor investment performance.

## **ARTICLE IV**

### **ACCOUNTS**

#### 4.1 Accounts

The Administrative Committee shall establish and maintain a recordkeeping Account for each Participant under the Plan.

#### 4.2 Valuation of Accounts

The valuation of Participants' recordkeeping Accounts will reflect earnings, losses, expenses and distributions, and will be made in accordance with the rules and procedures of the Administrative Committee.

(a) The Administrative Committee may set regular valuation dates and times and also use special valuation dates and times and procedures from time to time under unusual circumstances and to protect the financial integrity of the Plan.

(b) The Administrative Committee may use averaging methods to determine values and accrue estimated expenses.

(c) The Administrative Committee may change its valuation rules and procedures from time to time and without prior notice to Participants.

#### 4.3 Use of a Trust

The Company may set up a trust to hold any assets or insurance policies that it may use in meeting its obligations under the Plan. Any trust set up will be a rabbi trust and any assets placed in the trust shall continue for all purposes to be part of the general assets of the Company and shall be available to its general creditors in the event of the Company's bankruptcy or insolvency.

### ARTICLE V

#### VESTING AND FORFEITURES

##### 5.1 In General

A Participant's interest in his or her Account will be nonforfeitable, subject to the exceptions in Section 5.2.

##### 5.2 Exceptions

The following exceptions apply to the vesting rule in Section 5.1 above:

(a) A RAC Participant shall become fully vested in his or her RAC Subaccount and earnings thereon upon the earliest of the following dates, provided he or she is an Employee at such time: (i) the date he or she completes three years of service, (ii) the date of his or her 65<sup>th</sup> birthday, (iii) the date of his or her death, (iv) the date he or she becomes Disabled, or (v) the date Company Contributions are completely discontinued or the Plan is terminated. Notwithstanding anything to the contrary, if a Participant terminates employment with the Affiliated Companies prior to vesting as set forth in this Section 5.2(a), his or her unvested RAC Subaccount and earnings thereon shall be immediately forfeited upon such termination. For this purpose, years of service shall be calculated in the same manner as for purposes of determining vesting in Retirement Account Contributions under the NGSP (including the treatment of a break in service).

(b) A Participant whose original date of hire with the Affiliated Companies is after April 30, 2012 shall become fully vested in his or her Company matching contributions under Sections 3.2(b)(1) and (3) and earnings thereon upon the earliest of the following dates, provided he or she is an Employee at such time: (i) the date he or she completes three years of service, (ii) the date of his or her 65<sup>th</sup> birthday, (iii) the date of his or her death, or (iv) the date he or she becomes Disabled, or (v) the date Company Contributions are completely discontinued or the Plan is terminated. Notwithstanding anything to the contrary, if a Participant terminates employment with the Affiliated Companies prior to vesting as set for in this Section 5.2(b), his or

her unvested Company matching contributions under Sections 3.2(b)(1) and (3) and earnings thereon shall be immediately forfeited upon such termination. For this purpose, years of service shall be calculated in the same manner as for purposes of determining vesting in Retirement Account Contributions under the NGSP (including the treatment of a break in service).

- (c) Forfeitures on account of a lost payee. See Section 6.6.
- (d) Forfeitures under an escheat law.
- (e) Recapture of amounts improperly credited to a Participant's Account or improperly paid to or with respect to a Participant.
- (f) Expenses charged to a Participant's Account.
- (g) Investment losses.

## **ARTICLE VI**

### **DISTRIBUTIONS**

#### **6.1 Distribution Rules for Non-RAC Amounts**

The rules in this Section 6.1 apply to distribution of a Participant's Account other than the RAC Subaccount.

Notwithstanding the foregoing, Appendix B governs the distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Code section 409A. Thus, this Section 6.1 does not apply to these pre-2005 deferrals, but does apply to all other amounts deferred under the Plan.

(a) Separate Distribution Election. A Participant must make a separate distribution election for each year's contributions. A Participant generally makes a distribution election at the same time the Participant makes the deferral election, i.e., during the Open Enrollment Period.

(b) Distribution Upon Separation. A Participant may elect on a deferral form to have the vested portion of his Account related to amounts deferred under the deferral form and Company contributions for the same year (and earnings thereon) distributed in a lump sum or in quarterly or annual installments over a period of 1 to 15 years. Lump sum payments under the Plan will be made in the month following the Participant's Separation from Service. Installment payments shall commence in the March, June, September or December next following the month of Separation from Service. If a Participant does not make a distribution election and his vested Account balance (including amounts subject to Appendix B) exceeds \$50,000 and the Participant is age 55 or older at the time the Participant Separates from Service, the Participant will receive quarterly installments over a 10-year period. Otherwise, a Participant not making an election will receive a lump sum payment. Notwithstanding the foregoing, if the Participant's vested

Account balance (including amounts subject to Appendix B) is \$50,000 or less or the Participant is under age 55 at the time the Participant Separates from Service, the vested Account balance shall be distributed in a lump sum payment in the month following the Participant's Separation from Service.

Notwithstanding the timing rules in the foregoing paragraph, distributions may not be made to a Key Employee upon a Separation from Service before the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee). All payments to be made upon the Separation from Service shall be delayed six months in accordance with Treas. Reg. section 1.409-3(i)(2)(ii).

At the discretion of the Administrative Committee, a distribution may commence earlier or later than the date specified above, provided that the timing of any such commencement complies with Treas. Reg. section 1.409A-3(d) or any successor thereto.

(c) Changes in Form of Distribution. A Participant may make up to two subsequent elections to change the form of a distribution for any year's deferrals and Company contributions. Such an election, however, shall be effective only if the following conditions are satisfied:

(1) The election may not take effect until at least twelve (12) months after the date on which the election is made; and

(2) The distribution will be made exactly five (5) years from the date the distribution would have otherwise been made.

#### 6.2 Distribution Rules for RAC Subaccount

The full vested balance in a RAC Subaccount shall be distributed in a lump sum upon a RAC Participant's Separation from Service. Notwithstanding the foregoing, distribution will not be made to a Key Employee upon a Separation from Service until the date which is six months after the date of the Key Employee's Separation from Service (or, if earlier, the date of death of the Key Employee).

At the discretion of the Administrative Committee, a distribution may commence earlier or later than the date specified above, provided that the timing of any such commencement complies with Treas. Reg. section 1.409A-3(d) or any successor thereto.

#### 6.3 Effect of Taxation

If a Participant's benefits under the Plan are includible in income pursuant to Code section 409A, the Company shall have the discretion to accelerate the distribution of all or a portion of such includible benefits to the Participant, provided that the Participant shall not be given a direct or indirect election as to whether such discretion is exercised.

#### 6.4 Permitted Delays

Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Committee's reasonable anticipation of one or more of the following events:

- (a) The Company's deduction with respect to such payment would be eliminated by application of Code section 162(m); or
- (b) The making of the payment would violate Federal securities laws or other applicable law;
- (c) provided, that any payment delayed pursuant to this Section 6.4 shall be paid in accordance with Code section 409A.

#### 6.5 Payments Not Received At Death

In the event of the death of a Participant before receiving a payment, payment will be made to his or her estate if death occurs on or after the date of a check that has been issued by the Plan. Otherwise, payment of the amount will be made to the Participant's Beneficiary.

#### 6.6 Inability to Locate Participant

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two years following the required payment date, the amount allocated to the Participant's Account shall be forfeited. If, after such forfeiture and prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period.

#### 6.7 Committee Rules

All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

### **ARTICLE VII**

#### **ADMINISTRATION**

#### 7.1 Committees

(a) Effective April 27, 2006, the Administrative Committee shall be comprised of the individuals (in their corporate capacity) who are members of the Administrative Committee for Northrop Grumman Deferred Compensation Plan. If no such Administrative Committee exists, the members of the Administrative Committee for the Plan shall be individuals holding the following positions within the Company (as such titles may be modified from time to time), or their successors in office: the Corporate Vice President and Chief Human Resources



and Administration Officer; the Corporate Vice President, Controller and Chief Accounting Officer; the Vice President, Taxation; the Vice President, Compensation, Benefits and HRIS; and the Corporate Director, Benefits Administration and Services. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Corporate Vice President and Chief Human Resources and Administration Officer.

(b) Prior to April 27, 2006, the Administrative Committee shall be comprised of the individuals appointed by the Compensation Committee of the Board (the "Compensation Committee").

(c) An Investment Committee (referred to together with the Administrative Committee as, the "Committees"), comprised of one or more persons, shall be appointed by and serve at the pleasure of the Board (or its delegate). The number of members comprising the Investment Committee shall be determined by the Board, which may from time to time vary the number of members. A member of the Investment Committee may resign by delivering a written notice of resignation to the Board. The Board may remove any member by delivering a certified copy of its resolution of removal to such member. Vacancies in the membership of the Investment Committee shall be filled promptly by the Board.

## 7.2 Committee Action

Each Committee shall act at meetings by affirmative vote of a majority of the members of that Committee. Any determination of action of a Committee may be made or taken by a majority of a quorum present at any meeting thereof, or without a meeting, by resolution or written memorandum signed by a majority of the members of the Committee then in office. A member of a Committee shall not vote or act upon any matter which relates solely to himself or herself as a Participant. The Chairman or any other member or members of each Committee designated by the Chairman may execute any certificate or other written direction on behalf of the Committee of which he or she is a member.

The Compensation Committee shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The Administrative Committee shall conduct its business according to the provisions of this Article and the rules contained in the current edition of Robert's Rules of Order or such other rules of order the Administrative Committee may deem appropriate. The Administrative Committee shall hold meetings from time to time in any convenient location.

## 7.3 Powers and Duties of the Administrative Committee

The Administrative Committee shall enforce the Plan in accordance with its terms, shall be charged with the general administration of the Plan, and shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To construe and interpret the terms and provisions of this Plan and make all factual determinations;

- (b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;
- (c) To maintain all records that may be necessary for the administration of the Plan;
- (d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;
- (e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;
- (f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);
- (g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and
- (h) To take all actions necessary for the administration of the Plan, including determining whether to hold or discontinue insurance policies purchased in connection with the Plan.

#### 7.4 Powers and Duties of the Investment Committee

The Investment Committee shall have all powers necessary to accomplish its purposes, including, but not by way of limitation, the following:

- (a) To select types of investment and the actual investments against which earnings and losses will be measured;
- (b) To oversee any rabbi trust; and
- (c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

#### 7.5 Construction and Interpretation

The Administrative Committee shall have full discretion to construe and interpret the terms and provisions of this Plan, to make factual determinations and to remedy possible inconsistencies and omissions. The Administrative Committee's interpretations, constructions and remedies shall be final and binding on all parties, including but not limited to the Affiliated Companies and any Participant or Beneficiary. The Administrative Committee shall administer such terms and provisions in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

#### 7.6 Information

To enable the Committees to perform their functions, the Affiliated Companies adopting the Plan shall supply full and timely information to the Committees on all matters relating to the compensation of all Participants, their death or other events that cause termination of their participation in this Plan, and such other pertinent facts as the Committees may require.

#### 7.7 Committee Compensation, Expenses and Indemnity

(a) The members of the Committees shall serve without compensation for their services hereunder.

(b) The Committees are authorized to employ such accounting, consultants or legal counsel as they may deem advisable to assist in the performance of their duties hereunder.

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

#### 7.8 Disputes

The Company's standardized "Northrop Grumman Nonqualified Retirement Plans Claims and Appeals Procedures" shall apply in handling claims and appeals under this Plan.

### **ARTICLE VIII**

#### **MISCELLANEOUS**

#### 8.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors, and assigns shall have no legal or equitable rights, claims, or interest in any specific property or assets of the Affiliated Companies. No assets of the Affiliated Companies shall be held in any way as collateral security for the fulfilling of the obligations of the Affiliated Companies under this Plan. Any and all of the Affiliated Companies' assets shall be, and remain, the general unpledged, unrestricted assets of the Affiliated Companies. The obligation under the Plan of the Affiliated Companies adopting the Plan shall be merely that of an unfunded and unsecured promise of those Affiliated Companies to pay money in the future, and the rights of the Participants and Beneficiaries shall be no greater than those of unsecured general creditors. It is the intention of the Affiliated Companies that this Plan be unfunded for purposes of the Code and for purposes of Title I of ERISA.

## 8.2 Restriction Against Assignment

(a) The Company shall pay all amounts payable hereunder only to the person or persons designated by the Plan and not to any other person or corporation. No part of a Participant's Accounts shall be liable for the debts, contracts, or engagements of any Participant, his or her Beneficiary, or successors in interest, nor shall a Participant's Accounts be subject to execution by levy, attachment, or garnishment or by any other legal or equitable proceeding, nor shall any such person have any right to alienate, anticipate, sell, transfer, commute, pledge, encumber, or assign any benefits or payments hereunder in any manner whatsoever. If any Participant, Beneficiary or successor in interest is adjudicated bankrupt or purports to anticipate, alienate, sell, transfer, commute, assign, pledge, encumber or charge any distribution or payment from the Plan, voluntarily or involuntarily, the Administrative Committee, in its discretion, may cancel such distribution or payment (or any part thereof) to or for the benefit of such Participant, Beneficiary or successor in interest in such manner as the Administrative Committee shall direct.

(b) The actions considered exceptions to the vesting rule under Section 5.2 will not be treated as violations of this Section.

(c) Notwithstanding the foregoing, all or a portion of a Participant's vested Account balance may be paid to another person as specified in a domestic relations order that the Administrative Committee determines is qualified (a "Qualified Domestic Relations Order"). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

- (1) issued pursuant to a State's domestic relations law;
- (2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;
- (3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant's benefits under the Plan; and
- (4) meets such other requirements established by the Administrative Committee.

The Administrative Committee shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the Administrative Committee may consider the rules applicable to "domestic relations orders" under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

## 8.3 Restriction Against Double Payment

If a court orders an assignment of benefits despite Section 8.2, the affected Participant's benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

#### 8.4 Withholding

There shall be deducted from each payment made under the Plan or any other compensation payable to the Participant (or Beneficiary) all taxes, which are required to be withheld by the Affiliated Companies in respect to such payment or this Plan. The Affiliated Companies shall have the right to reduce any payment (or compensation) by the amount of cash sufficient to provide the amount of said taxes.

#### 8.5 Amendment, Modification, Suspension or Termination

The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant's Account balance as of the date of such amendment or termination. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and at the time described in Article VI, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

Notwithstanding the foregoing, no amendment of the Plan shall apply to amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent "material modification" to amounts that are "grandfathered" and exempt from the requirements of Code section 409A.

#### 8.6 Governing Law

To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

#### 8.7 Receipt and Release

Any payment to a payee in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan, the Committees and the Affiliated Companies. The Administrative Committee may require such payee, as a condition precedent to such payment, to execute a receipt and release to such effect.

#### 8.8 Payments on Behalf of Persons Under Incapacity

In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Committee, in its sole judgment, to have assumed the care of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of the Administrative Committee and the Company.

8.9 Limitation of Rights and Employment Relationship

Neither the establishment of the Plan, any trust nor any modification thereof, nor the creating of any fund or account, nor the payment of any benefits shall be construed as giving to any Participant, or Beneficiary or other person any legal or equitable right against the Affiliated Companies or any trustee except as provided in the Plan and any trust agreement; and in no event shall the terms of employment of any Employee or Participant be modified or in any way be affected by the provisions of the Plan and any trust agreement.

8.10 Headings

Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

8.11 Liabilities Transferred to HII

Northrop Grumman Corporation distributed its interest in Huntington Ingalls Industries, Inc. ("HII") to its shareholders on March 31, 2011 (the "HII Distribution Date"). Pursuant to an agreement between Northrop Grumman Corporation and HII, on the HII Distribution Date certain employees and former employees of HII ceased to participate in the Plan and the liabilities for these participants' benefits under the Plan were transferred to HII. On and after the HII Distribution Date, the Company and the Plan, and any successors thereto, shall have no further obligation or liability to any such participant with respect to any benefit, amount, or right due under the Plan.

\* \* \*

IN WITNESS WHEREOF, this Amendment and Restatement is hereby executed by a duly authorized officer on this 28th day of March, 2016.

NORTHROP GRUMMAN CORPORATION

By: /s/ Denise M. Peppard  
Denise M. Peppard  
Corporate Vice President and  
Chief Human Resources Officer

## **APPENDIX A – 2005 TRANSITION RELIEF**

The following provisions apply only during 2005, pursuant to transition relief granted in IRS Notice 2005-1:

### **A.1 Cash-Out**

Participants Separating from Service during 2005 for any reason before age 55 will receive an immediate lump sum distribution of their Account balances. Other Participants Separating from Service in 2005 will receive payments in accordance with their prior elections.

### **A.2 Elections**

During the Plan's open enrollment period in June 2005 Participants may fully or partially cancel 2005 deferral elections and receive in 2005 a refund of amounts previously deferred in 2005.

In addition, individuals working in Company facilities impacted by Hurricane Katrina may stop or reduce 2005 elective contributions to the Plan at any time during 2005. All payments under this Section A.2 will be made before the end of calendar year 2005.

### **A.3 Key Employees**

Key Employees Separating from Service on or after July 1, 2005, with distributions subject to Code section 409A and scheduled for payment in 2006 within six months of Separation from Service, may choose I or II below, subject to III:

- I. Delay the distributions described above for six months from the date of Separation from Service. The delayed payments will be paid as a single sum with interest at the end of the six month period, with the remaining payments resuming as scheduled.
- II. Accelerate the distributions described above into a payment in 2005 without interest adjustments.
- III. Key Employees must elect I or II during 2005.

## APPENDIX B – DISTRIBUTION RULES FOR PRE-2005 AMOUNTS

Distribution of amounts earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan or a Merged Plan prior to 2005 (and earnings thereon) are exempt from the requirements of Code section 409A and shall be made in accordance with the Plan or the applicable Merged Plan terms as in effect on December 31, 2004 and as summarized in the following provisions, except as otherwise provided in Appendix C.

### B.1 Distribution of Contributions

#### (a) Distributions Upon Early Termination.

(1) Voluntary Termination. If a Participant voluntarily terminates employment with the Affiliated Companies before age 55 or Disability, distribution of his or her Account will be made in a lump sum on the Participant's Payment Date.

(2) Involuntary Termination. If a Participant involuntarily terminates employment with the Affiliated Companies before age 55, distribution of his or her Account will generally be made in quarterly or annual installments over a fixed number of whole years not to exceed 15 years, commencing on the Participant's Payment Date, in accordance with the Participant's original election on his or her deferral election form. Payment will be made in a lump sum if the Participant had originally elected a lump sum, if the Account balance is \$50,000 or less, or if the Administrative Committee so specifies.

(b) Distribution After Retirement, Disability or Death. In the case of a Participant who separates from service with the Affiliated Companies on account of Retirement, Disability or death and has an Account balance of more than \$50,000, the Account shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 10 years commencing on the Participant's Payment Date unless an optional form of benefit has been specified pursuant to Section B.1(b) (1).

(1) An optional form of benefit may be elected by the Participant, on the form provided by Administrative Committee, during his or her initial election period from among those listed below:

(i) A lump sum distribution on the Participant's Payment Date.

(ii) Quarterly installments over a period of at least 1 and no more than 15 years beginning on the Participant's Payment Date.

(iii) Annual installments over a period of at least 2 and no more than 15 years beginning on the Participant's Payment Date.

(2) A Participant from time to time may modify the form of benefit that he or she has previously elected. Upon his or her separation from service, the most recently



elected form of distribution submitted at least 12 months prior to separation will govern. If no such election exists, distributions will be paid under the 10-year installment method.

(3) In the case of a Participant who terminates employment with the Affiliated Companies on account of Retirement, Disability or death with an Account balance of \$50,000 or less, the Account shall be paid to the Participant in a lump sum distribution on the Participant's Payment Date.

(4) In general, upon the Participant's death, payment of any remaining Account balance will be made to the Beneficiary in a lump sum on the Payment Date. But the Beneficiary will receive any remaining installments (starting on the Payment Date) if the Participant was receiving installments, or if the Participant died on or after age 55 with an Account balance over \$50,000 and with an effective installment payout election in place. In such cases, the Beneficiary may still elect a lump sum payment of the remaining Account balance, but only with the Administrative Committee's consent.

(5) In the event that this Plan is terminated, the amounts allocated to a Participant's Account shall be distributed to the Participant or, in the event of his or her death, to his or her Beneficiary in a lump sum.

**APPENDIX C – MERGED PLANS**

C.1 Plan Mergers

(a) Merged Plans. As of their respective effective dates, the plans listed in (c) (the "Merged Plans") are merged into this Plan. All amounts from those plans that were merged into this Plan are held in their corresponding Accounts.

(b) Accounts. Effective as of the dates below, Accounts are established for individuals who, before the merger, had account balances under the merged plans. These individuals will not accrue benefits under this Plan unless they become Participants by virtue of being hired into a covered position with an Affiliated Company, but they will be considered Participants for purposes of the merged accounts. The balance credited to the Participant's merged plan account will, effective as of the date provided in the table below, be invested in accordance with the terms of this Plan. Except as provided in section C.2 below, amounts merged into this Plan from the merged plans are governed by the terms of this Plan.

(c) Table.

<b>Name of Merged Plans</b>	<b>Merger Effective Dates</b>	<b>Merged Account Names</b>
Northrop Grumman Benefits Equalization Plan	December 10, 2004	NG BEP Account
Northrop Grumman Space & Mission Systems Corp. Deferred Compensation Plan	December 10, 2004	S & MS Deferred Compensation Account
BDM International, Inc. 1997 Executive Deferred Compensation Plan ("BDM Plan")	April 29, 2005	BDM Account
PRC Inc. Executive Deferred Compensation Plan ("PRC Plan")	November 9, 2012	PRC EDCP Account (or Sub-Account, as applicable)

C.2 Merged Plans – General Rule

(a) NG BEP Account and S & MS Deferred Compensation Account. Distributions from Participants' NG BEP and S & MS Deferred Compensation Accounts are made under the provisions of Appendix B, except as provided in this Section.

(1) Amounts in the Participant's NG BEP Account and the S & MS Deferred Compensation Account shall be paid out in accordance with elections made under the Merged Plans.

(2) The Participant's "Payment Date" for amounts in the NG BEP Account and the S & MS Deferred Compensation Account shall be deemed to be the end of January following the Participant's termination of employment.

(3) The reference to \$50,000 in the provisions of Appendix B shall be deemed to be \$5,000 with respect to amounts in the NG BEP Account and the S & MS Deferred Compensation Account.

(4) The Administrative Committee shall assume the rights and responsibilities of the Directors/Committee with respect to determining whether a Participant's NG BEP Account may be paid out in a form other than the automatic form of payment.

(5) The Administrative Committee shall assume the rights and responsibilities of the Committee or Special Committee with respect to determining whether a Participant's S & MS Deferred Compensation Account may be paid out in a form other than the automatic form of payment.

(6) For purposes of determining the time of payment of a Participant's NG BEP Account, a Participant's employment will not be deemed to have terminated following the Participant's layoff until the earlier of the end of the twelve-month period following layoff (without a return to employment with the Affiliated Companies) or the date on which the Participant retires under any pension plan maintained by the Affiliated Companies.

(7) A Participant's S & MS Deferred Compensation Account shall be paid to the Participant no later than the January 5 next preceding the Participant's 80<sup>th</sup> birthday.

(8) In no event will payments of amounts in the Participant's NG BEP Account and the S & MS Deferred Compensation Account be accelerated or deferred beyond the payment schedule provided under the Merged Plans. However, any election to change the time or form of payment for such an amount may be made based on the terms of the relevant Merged Plan as in effect on October 3, 2004.

(b) BDM Account. Distributions of a Participant's vested BDM Account balance shall be made in accordance with this Section C.2(b), and Article VI shall not apply to such distributions. A Participant shall be vested in his BDM Account balance in accordance with the vesting provisions of the BDM Plan.

(1) Timing of Payment: A Participant's vested BDM Account balance shall be distributed in accordance with elections made under the BDM Plan. For those Participants who have not commenced distributions as of April 29, 2005, payments from the BDM Account will commence at the time designated on his or her BDM enrollment and election form, unless extended prior to such date. However, if such a Participant did not elect a fixed date

(or elect the earlier of a fixed date or termination of employment), his or her vested BDM Account balance will be paid as soon as administratively practicable following termination of employment in the form designated under Section C.2(b)(2) below.

(2) Form of Payment: A Participant's vested BDM Account balance shall be paid in cash. The vested BDM Account balance will be paid in (i) a lump sum, (ii) five (5) or ten (10) substantially equal annual installments (adjusted for gains and losses), or (iii) a combination thereof, as selected by the Participant (or Beneficiary) prior to the date on which amounts are first payable to the Participant (or Beneficiary) under Section C.2(b)(1) above. If the Participant fails to designate properly the manner of payment, such payment will be made in a lump sum.

(3) Death Benefits: If a Participant dies before commencement of payment of his BDM Account balance, the entire Account balance will be paid at the times provided in Section C.2(b)(2) above to his or her Beneficiary. If a Participant dies after commencement but before he or she has received all payments from his vested BDM Account balance, the remaining installments shall be paid annually to the Beneficiary. For purposes of this Section C.2(b), a Participant's Beneficiary, unless subsequently changed, will be the designated beneficiary(ies) under the BDM Plan or if none, the Participant's spouse, if then living, but otherwise the Participant's then living descendants, if any, per stirpes, but, if none, the Participant's estate.

(4) Lost Participant: In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within three years following the payment date under Section C.2(b)(1) above, the amount allocated to the Participant's BDM Account shall be forfeited. If, after such forfeiture and prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period. In lieu of such a forfeiture, the Administrative Committee has the discretion to direct distribution of the vested BDM Account balance to any one or more or all of the Participant's next of kin, and in the proportions as the Administrative Committee determines.

(5) Committee Rules: All distributions are subject to the rules and procedures of the Administrative Committee. The Administrative Committee may also require the use of particular forms. The Administrative Committee may change its rules, procedures and forms from time to time and without prior notice to Participants.

(6) Payment Schedule: In no event will payments of amounts in the Participant's BDM Account be accelerated or deferred beyond the payment schedule provided under the BDM Plan.

(7) Application to Trustee: BDM International, Inc. set aside amounts in a grantor trust to assist it in meeting its obligations under the BDM Plan. Notwithstanding Section C.2(b)(5) above and the claims procedures provided in Section 7.8, a Participant may make application for payment of benefits under this Section C.2(b) directly to the trustee of such trust.

(c) PRC EDCP Account. Notwithstanding anything to the contrary, the following provisions in this Section C.2(c) summarize the distribution rules in effect under the PRC Plan with respect to the PRC EDCP Account balances, and those PRC Plan distribution terms shall continue to govern the distributions of the PRC EDCP Account balances. Article VI and Appendix B shall not apply to the PRC EDCP Account balances. Nothing in this Section C.2(c) shall change or alter the distribution terms of the PRC Plan in effect as of any date. All capitalized terms in this Section C.2(c) not otherwise defined in the Plan shall be defined in accordance with the terms of the PRC Plan as in effect immediately prior to the PRC Plan's merger with the Plan on November 9, 2012.

(1) Vesting. All Participants are vested in their PRC EDCP Account balances in accordance with the vesting provisions of the PRC Plan.

(2) Fixed Payment Dates; Termination of Employment. A Participant's vested PRC EDCP Account balance shall be distributed in accordance with his elections made under the PRC Plan. However, if such a Participant did not elect a fixed date or termination of employment with all Employers (or elect the earlier of a fixed date or termination of employment) for any particular portion of his or her vested PRC EDCP Account, such portion of his or her PRC EDCP Account balance will be valued and payable at or commence at such Participant's termination of employment according to the provisions of Sections C.2(c)(4) and (5).

(3) Hardship Distributions. In the event of financial hardship of the Participant, as hereinafter defined, the Participant may apply to the Administrative Committee for the distribution of all or any part of his or her vested PRC EDCP Account. The Administrative Committee shall consider the circumstances of each such case, and the best interests of the Participant and his or her family, and shall have the right, in its sole and absolute discretion, if applicable, to allow such distribution, or, if applicable, to direct a distribution of part of the amount requested, or to refuse to allow any distribution. Upon a finding of financial hardship, the Administrative Committee shall make or cause the appropriate distribution to be made to the Participant from amounts held by the Company or the Trustee in respect of the Participant's vested PRC EDCP Account. In no event shall the aggregate amount of the distribution exceed either the full value of the Participant's vested PRC EDCP Account or the amount determined by the Administrative Committee, in its sole and absolute discretion, to be necessary to alleviate the Participant's financial hardship (which financial hardship may be considered to include any taxes due because of the distribution occurring because of this Section), and which is not reasonably available from other resources of the Participant. For purposes of this Section, the value of the Participant's vested PRC EDCP Account shall be determined as of the date of the distribution. "Financial hardship" means (i) a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Code section 152(a)) of the Participant, (ii) loss of the Participant's property due to casualty, or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, each as determined to exist by the Administrative Committee. A distribution may be made under this Section only with the consent of the Administrative Committee.

(4) Amount and Time of Payment. Subject to Section C.2(c)(3), a Participant (or his or her Beneficiary) shall become entitled to receive a vested PRC EDCP Sub-Account balance commencing on the Payment Date for such sub-account. For this purpose, the "Payment Date" will be the relevant date or event triggering payment as provided under Section C.2(c)(2). Notwithstanding the foregoing, a Participant may elect to postpone a Payment Date to a later date, provided the election is made at least 12 months prior to the scheduled Payment Date. For example, a Participant could elect (i) to postpone a fixed payment date to a later fixed payment date, or (ii) elect to postpone the payment date for an amount payable upon termination of employment to a date that necessarily occurs after termination of employment (e.g., two years after termination of employment). There is no limit on the number of such elections a Participant may make. Any payment due hereunder from the Trust which is not paid by the Trust for any reason will be paid by the Employer from its general assets.

(5) Method of Payment.

(i) Form of Payment. Unless otherwise elected by the Participant and permitted by the Trustee in its sole and absolute discretion, a Participant's vested PRC EDCP Account balance shall be paid in cash. In the case of distributions to a Participant or his or her Beneficiary by virtue of an entitlement pursuant to Section C.2(c)(2), an aggregate amount equal to the Participant's vested PRC EDCP Sub-Account will be paid by the Trust or the Employer, as provided by Section C.2(c)(4), in a lump sum or in five (5) or ten (10) substantially equal annual installments (adjusted for gains and losses, and reduced by any required withholding or other deductions from such payments), as selected by the Participant on his or her Participant Enrollment and Election Form for such sub-account. If the Participant fails to designate properly the manner of payment, such payment will be made in a lump sum.

If a Participant receiving installment distributions pursuant to Section C.2(c)(7) is re-employed by the Employer, the remaining distributions due to the Participant shall be suspended until such time as the Participant (or his or her Beneficiary) once again becomes eligible for benefit payments, at which time such distribution shall commence, subject to the limitations and conditions contained in the PRC Plan.

(ii) Subsequent Deferral Elections. Such form of payment may be changed by the Participant provided (A) the election is made at least 12 months prior to the payment date for the PRC EDCP Sub-Account provided under Section C.2(c)(4) and (B) the form of payment is not accelerated (i.e., an election of installments may not be changed to a lump sum and an election of 10 annual installments may not be changed to 5 annual installments). There is no limit on the number of such elections a Participant may make.

(6) Death Benefits. If a Participant dies before terminating his or her employment with the Employer and before the commencement of payments to the Participant hereunder, the entire value of the Participant's PRC EDCP Account (which may include credits for insurance contract death benefits deemed to be received by the PRC EDCP Account) shall be paid, as provided in Section C.2(c)(5), to the Beneficiary designated under the Plan, unless the Employer elects a more rapid form or schedule of distribution.

Upon the death of a Participant after payments hereunder have begun but before he or she has received all payments to which he or she is entitled under the Plan, the remaining benefit payments shall be paid to the Beneficiary designated under the Plan, in the manner in which such benefits were payable to the Participant, unless the Employer elects a more rapid form or schedule of distribution.

(7) Application to Trustee. Notwithstanding Section 6.7 above and the claims procedures provided in Section 7.8, on the date or dates on which a Participant or Beneficiary is entitled to payment under Section C.2(c)(2), the Participant or Beneficiary need not make application for payment to the Administrative Committee, but instead may make application for payment directly to the Trustee who shall, subject to any restrictions or limitations contained in the Trust, pay the Participant or Beneficiary the appropriate amount directly from the Trust without the consent of PRC or the Employer. The Trustee shall report the amount of each such payment, and any withholding thereon, to the Company.

**APPENDIX D – COMMITTEES AND APPOINTMENTS**

Notwithstanding anything to the contrary in this Plan, effective October 25, 2011, the Chief Executive Officer of Northrop Grumman Corporation shall appoint, and shall have the power to remove, the members of (1) an Administrative Committee that shall have responsibility for administering the Plan (including as such responsibilities are described in Article VII of the Plan) and (2) an Investment Committee that shall have responsibility for overseeing any rabbi trusts or other informal funding for the Plan.



**NORTHROP GRUMMAN CORPORATION**  
**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES**

<i>\$ in millions</i>	Three Months Ended March 31		Year Ended December 31				
<b>Earnings:</b>	<b>2016</b>	2015	2015	2014	2013	2012	2011
Earnings from continuing operations before income taxes	\$ 676	\$ 704	\$ 2,790	\$ 2,937	\$ 2,863	\$ 2,965	\$ 3,083
<b>Fixed Charges:</b>							
Interest expense, including amortization of debt premium	76	76	301	282	257	212	221
Portion of rental expenses on operating leases deemed to be representative of the interest factor	30	27	101	101	99	116	140
Earnings from continuing operations before income taxes and fixed charges	\$ 782	\$ 807	\$ 3,192	\$ 3,320	\$ 3,219	\$ 3,293	\$ 3,444
<b>Fixed Charges:</b>	<b>\$ 106</b>	<b>\$ 103</b>	<b>\$ 402</b>	<b>\$ 383</b>	<b>\$ 356</b>	<b>\$ 328</b>	<b>\$ 361</b>
Ratio of earnings to fixed charges	7.4	7.8	7.9	8.7	9.0	10.0	9.5

**LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

April 26, 2016

Northrop Grumman Corporation  
2980 Fairview Park Drive  
Falls Church, Virginia 22042

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended March 31, 2016, and 2015, as indicated in our report dated April 26, 2016; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-67266, 333-100179, 333-107734, 333-121104, 333-125120, 333-127317, and 333-175798 on Form S-8; and Registration Statement No 333-196238 on Form S-3.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP  
McLean, Virginia

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wesley G. Bush, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 26, 2016

**/s/ Wesley G. Bush**

Wesley G. Bush

Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth L. Bedingfield, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 26, 2016

**/s/ Kenneth L. Bedingfield**

Kenneth L. Bedingfield

Corporate Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Northrop Grumman Corporation (the "company") on Form 10-Q for the period ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Wesley G. Bush, Chairman, Chief Executive Officer and President of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: April 26, 2016

**/s/ Wesley G. Bush**

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Wesley G. Bush  
Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Northrop Grumman Corporation (the "company") on Form 10-Q for the period ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth L. Bedingfield, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: April 26, 2016

**/s/ Kenneth L. Bedingfield**

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Kenneth L. Bedingfield  
Corporate Vice President and Chief Financial Officer

