

**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, 2020

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	NOC	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files).

Yes  No

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

Large Accelerated Filer  Accelerated Filer

Non-accelerated Filer  Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 24, 2020, 166,702,730 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	
	2020	2019
<b>Sales</b>		
Product	\$ 6,176	\$ 5,728
Service	2,444	2,461
Total sales	8,620	8,189
<b>Operating costs and expenses</b>		
Product	4,952	4,517
Service	1,946	1,976
General and administrative expenses	788	760
<b>Operating income</b>	934	936
Other (expense) income		
Interest expense	(125)	(138)
FAS (non-service) pension benefit	302	200
Other, net	(58)	36
Earnings before income taxes	1,053	1,034
Federal and foreign income tax expense	185	171
<b>Net earnings</b>	\$ 868	\$ 863
<b>Basic earnings per share</b>	\$ 5.18	\$ 5.08
Weighted-average common shares outstanding, in millions	167.7	170.0
<b>Diluted earnings per share</b>	\$ 5.15	\$ 5.06
Weighted-average diluted shares outstanding, in millions	168.4	170.7
Net earnings (from above)	\$ 868	\$ 863
Other comprehensive loss		
Change in unamortized prior service credit, net of tax	(10)	(11)
Change in cumulative translation adjustment and other, net	(9)	4
Other comprehensive loss, net of tax	(19)	(7)
<b>Comprehensive income</b>	\$ 849	\$ 856

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, except par value</i>	March 31, 2020	December 31, 2019
<b>Assets</b>		
Cash and cash equivalents	\$ 3,278	\$ 2,245
Accounts receivable, net	2,136	1,326
Unbilled receivables, net	5,918	5,334
Inventoried costs, net	785	783
Prepaid expenses and other current assets	1,011	997
<b>Total current assets</b>	<b>13,128</b>	<b>10,685</b>
Property, plant and equipment, net of accumulated depreciation of \$5,952 for 2020 and \$5,850 for 2019	6,956	6,912
Operating lease right-of-use assets	1,469	1,511
Goodwill	18,698	18,708
Intangible assets, net	974	1,040
Deferred tax assets	355	508
Other non-current assets	1,623	1,725
<b>Total assets</b>	<b>\$ 43,203</b>	<b>\$ 41,089</b>
<b>Liabilities</b>		
Trade accounts payable	\$ 2,071	\$ 2,226
Accrued employee compensation	1,472	1,865
Advance payments and billings in excess of costs incurred	2,027	2,237
Other current liabilities	4,607	3,106
<b>Total current liabilities</b>	<b>10,177</b>	<b>9,434</b>
Long-term debt, net of current portion of \$1,790 for 2020 and \$1,109 for 2019	14,299	12,770
Pension and other postretirement benefit plan liabilities	6,779	6,979
Operating lease liabilities	1,280	1,308
Other non-current liabilities	1,606	1,779
<b>Total liabilities</b>	<b>34,141</b>	<b>32,270</b>
<b>Commitments and contingencies (Note 6)</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: 2020—167,099,297 and 2019—167,848,424	167	168
Paid-in capital	—	—
Retained earnings	9,011	8,748
Accumulated other comprehensive loss	(116)	(97)
<b>Total shareholders' equity</b>	<b>9,062</b>	<b>8,819</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 43,203</b>	<b>\$ 41,089</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	
	2020	2019
<b>Operating activities</b>		
Net earnings	\$ 868	\$ 863
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	297	302
Stock-based compensation	18	26
Deferred income taxes	156	33
Changes in assets and liabilities:		
Accounts receivable, net	(810)	(718)
Unbilled receivables, net	(584)	(759)
Inventoried costs, net	(2)	(124)
Prepaid expenses and other assets	56	(23)
Accounts payable and other liabilities	(833)	(480)
Income taxes payable, net	10	140
Retiree benefits	(237)	(142)
Other, net	68	(31)
Net cash used in operating activities	(993)	(913)
<b>Investing activities</b>		
Capital expenditures	(272)	(284)
Other, net	2	4
Net cash used in investing activities	(270)	(280)
<b>Financing activities</b>		
Net proceeds from issuance of long-term debt	2,239	—
Payments to credit facilities	(7)	(20)
Net borrowings on commercial paper	744	814
Common stock repurchases	(344)	(60)
Cash dividends paid	(227)	(211)
Payments of employee taxes withheld from share-based awards	(63)	(61)
Other, net	(46)	—
Net cash provided by financing activities	2,296	462
Increase (decrease) in cash and cash equivalents	1,033	(731)
Cash and cash equivalents, beginning of year	2,245	1,579
Cash and cash equivalents, end of period	\$ 3,278	\$ 848

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	
	2020	2019
<b>Common stock</b>		
Beginning of period	\$ 168	\$ 171
Common stock repurchased	(1)	(1)
End of period	167	170
<b>Paid-in capital</b>		
Beginning of period	—	—
End of period	—	—
<b>Retained earnings</b>		
Beginning of period	8,748	8,068
Common stock repurchased	(348)	(62)
Net earnings	868	863
Dividends declared	(223)	(206)
Stock compensation	(45)	(35)
Other	11	—
End of period	9,011	8,628
<b>Accumulated other comprehensive (loss) income</b>		
Beginning of period	(97)	(52)
Other comprehensive loss, net of tax	(19)	(7)
End of period	(116)	(59)
Total shareholders' equity	\$ 9,062	\$ 8,739
Cash dividends declared per share	\$ 1.32	\$ 1.20

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 (the “financial statements”) include the accounts of Northrop Grumman Corporation and its subsidiaries and joint ventures or other investments for which we consolidate the financial results (herein referred to as “Northrop Grumman,” the “company,” “we,” “us,” or “our”). 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.

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP” or “FAS”) and in accordance with the rules of the Securities and Exchange Commission (SEC) for interim reporting. The 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.

Effective January 1, 2020, the company reorganized its operating sectors to better align the company’s broad portfolio to serve its customers’ needs. The four new sectors, which also comprise our reportable segments, are Aeronautics Systems, Defense Systems, Mission Systems and Space Systems.

The results reported in these financial statements are not necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the information contained in the company’s 2019 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 2019 Annual Report on Form 10-K to reflect changes in the company’s 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**

Preparation of the financial statements 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 U.S. government for the production of goods, the provision of services, or a combination of both. We recognize revenue as control is transferred to the customer, either over time or at a point in time. As control is effectively transferred while we perform on our contracts, we generally recognize revenue over time using the cost-to-cost method (cost incurred relative to total cost estimated at completion) as the company believes this represents the most appropriate measurement towards satisfaction of our performance obligations. Revenue for contracts in which the control of goods produced does not transfer until delivery to the customer is recognized at a point in time (i.e., typically upon delivery).

*Contract Estimates*

Use of the cost-to-cost method requires us to make reasonably dependable estimates regarding the revenue and cost associated with the design, manufacture and delivery of our products and services. The company estimates profit on these contracts as the difference between total estimated sales and total estimated cost at completion and recognizes that profit as costs are incurred. Significant judgment is used to estimate total sales and cost at completion.

Contract sales may include estimates of variable consideration, including cost or performance incentives (such as award and incentive fees), contract claims and requests for equitable adjustment (REAs). Variable consideration is included in total estimated sales to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. We estimate variable consideration as the most likely amount to which we expect to be entitled.

**NORTHROP GRUMMAN CORPORATION**

We recognize changes in estimated contract sales or costs and the resulting changes in contract profit on a cumulative basis. Cumulative Estimate-at-Completion (EAC) adjustments represent the cumulative effect of the changes on current and prior periods; sales and operating margins in future periods are recognized as if the revised estimates had been used since contract inception. If it is determined that a loss is expected to result on an individual performance obligation, the entire amount of the estimable future loss, including an allocation of general and administrative (G&A) costs, is charged against income in the period the loss is identified.

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

<i>\$ in millions, except per share data</i>	Three Months Ended March 31	
	2020	2019
Revenue	\$ 136	\$ 166
Operating income	124	138
Net earnings <sup>(1)</sup>	98	109
Diluted earnings per share <sup>(1)</sup>	0.58	0.64

<sup>(1)</sup> Based on a 21 percent statutory tax rate.

EAC adjustments on a single performance obligation can have a material effect on the company's financial statements. When such adjustments occur, we generally disclose the nature, underlying conditions and financial impact of the adjustments. No such adjustments were material to the financial statements during the three months ended March 31, 2020 and 2019.

**Backlog**

Backlog represents the future sales we expect to recognize on firm orders received by the company and is equivalent to the company's remaining performance obligations at the end of each period. It comprises 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 an option or IDIQ task order is exercised or awarded.

Company backlog as of March 31, 2020 was \$64.2 billion. We expect to recognize approximately 45 percent and 70 percent of our March 31, 2020 backlog as revenue over the next 12 and 24 months, respectively, with the remainder to be recognized thereafter.

**Contract Assets and Liabilities**

For each of the company's contracts, the timing of revenue recognition, customer billings, and cash collections results in a net contract asset or liability at the end of each reporting period. Contract assets are equivalent to and reflected as Unbilled receivables in the unaudited condensed consolidated statements of financial position and are primarily related to long-term contracts where revenue recognized under the cost-to-cost method exceeds amounts billed to customers. Contract liabilities are equivalent to and reflected as Advance payments and billings in excess of costs incurred in the unaudited condensed consolidated statements of financial position. The amount of revenue recognized for the three months ended March 31, 2020 and 2019 that was included in the contract liability balances at the beginning of each year was \$781 million and \$674 million, respectively.

**Disaggregation of Revenue**

See Note 9 for information regarding the company's sales by customer type, contract type and geographic region for each of our segments. We believe those categories best depict how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.



**NORTHROP GRUMMAN CORPORATION**
**Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss are as follows:

<i>\$ in millions</i>	<b>March 31, 2020</b>	December 31, 2019
Unamortized prior service credit, net of tax expense of \$13 for 2020 and \$17 for 2019	\$ 41	\$ 51
Cumulative translation adjustment and other, net	(157)	(148)
<b>Total accumulated other comprehensive loss</b>	<b>\$ (116)</b>	<b>\$ (97)</b>

**Related Party Transactions**

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

**Accounting Standards Updates**

Accounting standards updates adopted and/or issued, but not effective until after March 31, 2020, 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.

**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 include the dilutive effect of awards granted to employees under stock-based compensation plans. The dilutive effect of these securities totaled 0.7 million shares and 0.7 million shares for the three months ended March 31, 2020 and 2019, respectively.

**Share Repurchases**

On September 16, 2015, the company's board of directors authorized a share repurchase program of up to \$4.0 billion of the company's common stock (the "2015 Repurchase Program"). Repurchases under the 2015 Repurchase Program commenced in March 2016 and were completed in March 2020.

On December 4, 2018, the company's board of directors authorized a new share repurchase program of up to an additional \$3.0 billion in share repurchases of the company's common stock (the "2018 Repurchase Program"). Repurchases under the 2018 Repurchase Program commenced in March 2020 upon the completion of the company's 2015 Repurchase Program. As of March 31, 2020, repurchases under the 2018 Repurchase Program totaled \$20 million; \$2.98 billion remained under this share repurchase authorization. By its terms, the 2018 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, in the periods presented, has not made any purchases of common stock other than in connection with these publicly announced repurchase programs.

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 2020	2019
September 16, 2015	\$ 4,000	15.4	\$ 260.33	March 2020	<b>0.9</b>	1.1
December 4, 2018	\$ 3,000	0.1	306.22		<b>0.1</b>	—

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

**Dividends on Common Stock**

In May 2019, the company increased the quarterly common stock dividend 10 percent to \$1.32 per share from the previous amount of \$1.20 per share.

**NORTHROP GRUMMAN CORPORATION**
**3. INCOME TAXES**

<i>\$ in millions</i>	Three Months Ended March 31	
	2020	2019
Federal and foreign income tax expense	\$ 185	\$ 171
Effective income tax rate	17.6%	16.5%

The first quarter 2020 effective tax rate increased to 17.6 percent from 16.5 percent in the first quarter of 2019 primarily due to nondeductible losses on marketable securities and an increase in reserves for uncertain tax positions. These were partially offset by an increase in research credits, which totaled \$41 million in the first quarter of 2020 and \$31 million in the prior year period. Both periods benefited from \$13 million of excess tax benefits for employee share-based compensation.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted. The CARES Act includes certain changes to U.S. tax law that impact the company, including a technical correction to the 2017 Tax Cuts and Jobs Act, which makes certain qualified improvement property eligible for bonus depreciation. The CARES Act did not have a significant impact on the company's first quarter 2020 effective tax rate.

The company has recorded unrecognized tax benefits related to our methods of accounting associated with the timing of revenue recognition and related costs, and the 2017 Tax Act. It is reasonably possible that within the next 12 months our unrecognized tax benefits related to these matters may decrease by up to \$60 million. Since enactment of the 2017 Tax Act, the IRS and U.S. Treasury Department have issued and are expected to further issue interpretive guidance that impacts taxpayers. We will continue to evaluate such guidance as it is issued.

We file income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. The Northrop Grumman 2014-2017 federal tax returns and refund claims related to its 2007-2016 federal tax returns are currently under IRS examination. In addition, legacy Orbital ATK federal tax returns for the year ended March 31, 2015, the nine-month transition period ended December 31, 2015 and calendar years 2016-2017 are currently under IRS examination.

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The company holds a portfolio of marketable securities consisting of securities to partially fund non-qualified employee benefit plans. A portion of these securities are held in common/collective trust funds and are measured at fair value using net asset value (NAV) per share as a practical expedient; and therefore are not required to be categorized in the fair value hierarchy table below. Marketable securities are included in Other non-current assets in the unaudited condensed consolidated statements of financial position.

The company's derivative portfolio consists primarily of foreign currency forward contracts. 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 following table presents the financial assets and liabilities the company records at fair value on a recurring basis identified by the level of inputs used to determine fair value:

<i>\$ in millions</i>	March 31, 2020			December 31, 2019		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Financial Assets (Liabilities)</b>						
Marketable securities	\$ 288	\$ 4	\$ 292	\$ 364	\$ 1	\$ 365
Marketable securities valued using NAV			16			17
Total marketable securities	288	4	308	364	1	382
Derivatives	—	(3)	(3)	—	(3)	(3)

The notional value of the company's foreign currency forward contracts at March 31, 2020 and December 31, 2019 was \$85 million and \$98 million, respectively. The portion of notional value designated as a cash flow hedge was \$3 million and \$7 million as of March 31, 2020 and December 31, 2019, respectively.

## NORTHROP GRUMMAN CORPORATION

The derivative fair values and related unrealized gains/losses at March 31, 2020 and December 31, 2019 were not material. There were no transfers of financial instruments between the three levels of the fair value hierarchy during the three months ended March 31, 2020.

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

### Long-term Debt

The estimated fair value of long-term debt was \$17.5 billion and \$15.1 billion as of March 31, 2020 and December 31, 2019, respectively. We calculated the fair value of long-term debt using Level 2 inputs, based on interest rates available for debt with terms and maturities similar to the company's existing debt arrangements. The carrying value of long-term debt was \$16.1 billion and \$13.9 billion as of March 31, 2020 and December 31, 2019, respectively. The current portion of long-term debt is recorded in Other current liabilities in the unaudited condensed consolidated statements of financial position.

### Unsecured Senior Notes

In March 2020, the company issued \$2.25 billion of unsecured senior notes for general corporate purposes, including debt repayment and working capital, as follows:

- \$750 million of 4.40% senior notes due 2030 (the "2030 Notes"),
- \$500 million of 5.15% senior notes due 2040 (the "2040 Notes") and
- \$1.0 billion of 5.25% senior notes due 2050 (the "2050 Notes").

We refer to the 2030 Notes, the 2040 Notes and the 2050 Notes, together, as the "notes." Interest on the notes is payable semi-annually in arrears. The notes are generally subject to redemption, in whole or in part, at the company's discretion at any time, or from time to time, prior to maturity at a redemption price equal to the greater of 100% of the principal amount of the notes to be redeemed or an applicable "make-whole" amount, plus accrued and unpaid interest.

## 5. INVESTIGATIONS, CLAIMS AND 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 cost 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 February 16, 2018, both the company and the United States filed motions to dismiss many of the claims and counterclaims referenced above, in whole or in part. The United States also filed a motion seeking to amend its answer and counterclaim, including to reduce its counterclaim to approximately \$193 million, which the court granted on June 11, 2018. On October 17, 2018, the court granted in part and denied in part the parties' motions to dismiss. On February 3, 2020, the parties commenced what was expected to be a seven-week trial. The first four weeks of trial have concluded, but the court postponed the remaining three weeks until May 2020 as a result of COVID-19-related concerns. Although the ultimate outcome of these matters ("the FSS matters," collectively), including any possible loss, cannot be predicted or reasonably estimated at this time, the company intends vigorously to pursue and defend the FSS matters.

## **NORTHROP GRUMMAN CORPORATION**

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, ECT alleges the consortium breached its contract with ECT and seeks damages of approximately R\$111 million (the equivalent of approximately \$22 million as of March 31, 2020), 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 \$17 million as of March 31, 2020) in damages. In October 2013, ECT asserted an additional damage claim of R\$22 million (the equivalent of approximately \$4 million as of March 31, 2020). 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 \$34 million as of March 31, 2020), 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. In a decision dated November 13, 2018, the trial court ruled in ECT's favor on one of its claims against Solystic, and awarded damages of R\$41 million (the equivalent of approximately \$8 million as of March 31, 2020) against Solystic and its consortium partners, with that amount to be adjusted for inflation and interest from November 2004 through any appeal, in accordance with the Manual of Calculations of the Federal Justice, as well as attorneys' fees. On March 22, 2019, ECT appealed the trial court's decision to the intermediate court of appeals. Solystic filed its appeal on April 11, 2019. The parties are assessing whether there is a possible path for a negotiated resolution of the dispute.

We are engaged in remediation activities relating to environmental conditions allegedly resulting from historic operations at the former United States Navy and Grumman facilities in Bethpage, New York. For over 20 years, we have worked closely with the United States Navy, the United States Environmental Protection Agency, the New York State Department of Environmental Conservation, the New York State Department of Health and other federal, state and local governmental authorities, to address legacy environmental conditions in Bethpage. We have incurred, and expect to continue to incur, as included in Note 6, substantial remediation costs related to these environmental conditions. The remediation standards or requirements to which we are subject are being reconsidered and may change and costs may increase materially. As discussed in Note 6, the State of New York issued a Feasibility Study and an Amended Record of Decision, seeking to impose additional remedial requirements. The company is engaged in discussions with the State of New York and certain other potentially responsible parties. The State of New York has said that, among other things, it is also evaluating potential natural resource damages. In addition, we are a party to various, and expect to become a party to additional, legal proceedings and disputes related to remediation, costs, allowability and/or alleged environmental impacts in Bethpage, including with federal and state entities, the Navy, local municipalities and water districts, and insurance carriers, as well as class action and individual plaintiffs alleging personal injury and property damage and seeking both monetary and non-monetary relief. These Bethpage matters could result in additional costs, fines, penalties, sanctions, compensatory or other damages (including natural resource damages), determinations on allocation, allowability and coverage, and non-monetary relief. We cannot at this time predict or reasonably estimate the potential cumulative outcomes or ranges of possible liability of these aggregate Bethpage matters.

The company is a party to various other investigations, lawsuits, arbitration, claims, enforcement actions 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, the company does not believe that the outcome of any of these other matters 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, 2020, or its annual results of operations and/or cash flows.

## **6. COMMITMENTS AND CONTINGENCIES**

### **U.S. Government Cost Claims and Contingencies**

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 U.S. government representatives engage in discussions to enable the company to evaluate the merits of these claims, as

**NORTHROP GRUMMAN CORPORATION**

well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect the company's estimated exposure for such potential disallowed costs. 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 reasonably estimable, and that the outcome of any such matters would not have a material adverse effect on its unaudited condensed consolidated financial position as of March 31, 2020, or its annual results of operations and/or cash flows.

Recently, the U.S. government has raised questions about an interest rate assumption used by the company to determine our CAS pension cost in previous years. We are currently engaging with the government to address their questions. Although we believe our pension-related assumptions are appropriate, the sensitivity to changes in interest rate assumptions makes it reasonably possible the outcome of this matter could have a material adverse effect on our financial position, results of operations and/or cash flows, although we are not currently able to estimate a range of any potential loss.

**Environmental Matters**

The table below summarizes the amount accrued for environmental remediation costs, management's estimate of the amount of reasonably possible future costs in excess of accrued costs and the deferred costs expected to be recoverable through overhead charges on U.S. government contracts as of March 31, 2020 and December 31, 2019:

<i>\$ in millions</i>	Reasonably Possible Future Costs in Excess of Accrued Costs <sup>(2)</sup>		Deferred Costs <sup>(3)</sup>
	Accrued Costs <sup>(1)(2)</sup>		
<b>March 31, 2020</b>	<b>\$ 533</b>	<b>\$ 448</b>	<b>\$ 439</b>
December 31, 2019	531	448	436

<sup>(1)</sup> As of March 31, 2020, \$163 million is recorded in Other current liabilities and \$370 million is recorded in Other non-current liabilities.

<sup>(2)</sup> Estimated remediation costs are not discounted to present value. The reasonably possible future costs in excess of accrued costs do not take into consideration amounts expected to be recoverable through overhead charges on U.S. government contracts.

<sup>(3)</sup> As of March 31, 2020, \$131 million is deferred in Prepaid expenses and other current assets and \$308 million is deferred in Other non-current assets. These amounts are evaluated for recoverability on a routine basis.

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, except with respect to Bethpage, we do not anticipate that 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, 2020, or its annual results of operations and/or cash flows. With respect to Bethpage, the State of New York issued a Feasibility Study and an Amended Record of Decision, proposing to impose additional remedial requirements. The company is engaged in discussions with the State of New York and other potentially responsible parties. As discussed in Note 5, the remediation standards or requirements to which we are subject are being reconsidered and may change and costs may increase materially.

**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, 2020, there were \$469 million of stand-by letters of credit and guarantees and \$182 million of surety bonds outstanding.

**Commercial Paper**

The company maintains a commercial paper program that serves as a source of short-term financing with capacity to issue unsecured commercial paper notes up to \$2.0 billion. At March 31, 2020, there were \$744 million of outstanding short-term commercial paper borrowings at a weighted-average interest rate of 1.88 percent that have original maturities of three months or less from the date of issuance. The outstanding balance of commercial paper borrowings is recorded in Other current liabilities in the unaudited condensed consolidated statements of financial position.

**Credit Facilities**

The company maintains a five-year senior unsecured credit facility in an aggregate principal amount of \$2.0 billion (the "2018 Credit Agreement") that matures in August 2024 and is intended to support the company's commercial paper program and other general corporate purposes. Commercial paper borrowings reduce the amount available for

**NORTHROP GRUMMAN CORPORATION**

borrowing under the 2018 Credit Agreement. At March 31, 2020, there was no balance outstanding under this facility.

In December 2016, a subsidiary of the company entered into a two-year credit facility, with two additional one-year option periods, in an aggregate principal amount of £120 million (the equivalent of approximately \$149 million as of March 31, 2020) (the “2016 Credit Agreement”). The company exercised the second option to extend the maturity to December 2020. The 2016 Credit Agreement is guaranteed by the company. At March 31, 2020, there was £55 million (the equivalent of approximately \$68 million) outstanding under this facility, which bears interest at a rate of LIBOR plus 1.10 percent. All of the borrowings outstanding under this facility are recorded in Other current liabilities in the unaudited condensed consolidated statement of financial position.

At March 31, 2020, the company was in compliance with all covenants under its credit agreements.

**7. RETIREMENT BENEFITS**

The cost to the company of its pension and other postretirement benefit (OPB) plans is shown in the following table:

<i>\$ in millions</i>	Three Months Ended March 31			
	Pension Benefits		OPB	
	2020	2019	2020	2019
<b>Components of net periodic benefit cost (benefit)</b>				
Service cost	\$ 102	\$ 92	\$ 4	\$ 4
Interest cost	307	340	17	20
Expected return on plan assets	(594)	(525)	(26)	(23)
Amortization of prior service credit	(15)	(15)	1	(1)
<b>Net periodic benefit cost (benefit)</b>	<b>\$ (200)</b>	<b>\$ (108)</b>	<b>\$ (4)</b>	<b>\$ —</b>

**Employer Contributions**

The company sponsors defined benefit pension and OPB 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.

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

<i>\$ in millions</i>	Three Months Ended March 31	
	2020	2019
Defined benefit pension plans	\$ 20	\$ 23
OPB plans	12	12
Defined contribution plans	256	191

**8. 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	
	2020	2019
RSRs granted	0.1	0.1
RPSRs granted	0.2	0.2
Grant date aggregate fair value	\$ 87	\$ 91

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 over a three-year period.

**NORTHROP GRUMMAN CORPORATION****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	
	2020	2019
Minimum aggregate payout amount	\$ 31	\$ 36
Maximum aggregate payout amount	175	203

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 over a three-year period.

**9. SEGMENT INFORMATION**

Effective January 1, 2020, the company reorganized its operating sectors to better align the company's broad portfolio to serve its customers' needs. The four new sectors, which also comprise our reportable segments, are Aeronautics Systems, Defense Systems, Mission Systems and Space Systems.

The following table presents sales and operating income by segment:

<i>\$ in millions</i>	Three Months Ended March 31	
	2020	2019
<b>Sales</b>		
Aeronautics Systems	\$ 2,843	\$ 2,818
Defense Systems	1,881	1,768
Mission Systems	2,347	2,210
Space Systems	1,948	1,801
Intersegment eliminations	(399)	(408)
<b>Total sales</b>	<b>8,620</b>	<b>8,189</b>
<b>Operating income</b>		
Aeronautics Systems	259	308
Defense Systems	196	202
Mission Systems	348	319
Space Systems	199	188
Intersegment eliminations	(49)	(50)
<b>Total segment operating income</b>	<b>953</b>	<b>967</b>
Net FAS (service)/CAS pension adjustment	105	108
Unallocated corporate expense	(124)	(139)
<b>Total operating income</b>	<b>\$ 934</b>	<b>\$ 936</b>

**Net FAS (Service)/CAS Pension Adjustment**

For financial statement purposes, we account for our employee pension plans in accordance with FAS. 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). The net FAS (service)/CAS pension adjustment reflects the difference between CAS pension expense included as cost in segment operating income and the service cost component of FAS expense included in total operating income.

**Unallocated Corporate Expense**

Unallocated corporate expense includes the portion of corporate costs not considered allowable or allocable under applicable CAS or FAR, and therefore not allocated to the segments, such as a portion of management and administration, legal, environmental, compensation, retiree benefits and other corporate unallowable costs. Unallocated corporate expense also includes costs not considered part of management's evaluation of segment

**NORTHROP GRUMMAN CORPORATION**

operating performance, such as amortization of purchased intangible assets and the additional depreciation expense related to the step-up in fair value of property, plant and equipment acquired through business combinations.

**Disaggregation of Revenue**
*Sales by Customer Type*

<i>\$ in millions</i>	Three Months Ended March 31			
	2020		2019	
	\$	% <sup>(3)</sup>	\$	% <sup>(3)</sup>
<b>Aeronautics Systems</b>				
U.S. government <sup>(1)</sup>	\$ 2,361	83%	\$ 2,334	83%
International <sup>(2)</sup>	444	16%	435	15%
Other customers	12	—%	25	1%
Intersegment sales	26	1%	24	1%
<b>Aeronautics Systems sales</b>	<b>2,843</b>	<b>100%</b>	<b>2,818</b>	<b>100%</b>
<b>Defense Systems</b>				
U.S. government <sup>(1)</sup>	1,259	67%	1,141	65%
International <sup>(2)</sup>	340	18%	363	21%
Other customers	111	6%	97	5%
Intersegment sales	171	9%	167	9%
<b>Defense Systems sales</b>	<b>1,881</b>	<b>100%</b>	<b>1,768</b>	<b>100%</b>
<b>Mission Systems</b>				
U.S. government <sup>(1)</sup>	1,671	71%	1,613	73%
International <sup>(2)</sup>	483	21%	376	17%
Other customers	17	1%	24	1%
Intersegment sales	176	7%	197	9%
<b>Mission Systems sales</b>	<b>2,347</b>	<b>100%</b>	<b>2,210</b>	<b>100%</b>
<b>Space Systems</b>				
U.S. government <sup>(1)</sup>	1,803	93%	1,669	93%
International <sup>(2)</sup>	68	3%	43	2%
Other customers	51	3%	69	4%
Intersegment sales	26	1%	20	1%
<b>Space Systems sales</b>	<b>1,948</b>	<b>100%</b>	<b>1,801</b>	<b>100%</b>
<b>Total</b>				
U.S. government <sup>(1)</sup>	7,094	83%	6,757	83%
International <sup>(2)</sup>	1,335	15%	1,217	15%
Other customers	191	2%	215	2%
<b>Total Sales</b>	<b>\$ 8,620</b>	<b>100%</b>	<b>\$ 8,189</b>	<b>100%</b>

<sup>(1)</sup> Sales to the U.S. government include sales from contracts for which we are the prime contractor, as well as those for which we are a subcontractor and the ultimate customer is the U.S. government. Each of the company's segments derives substantial revenue from the U.S. government.

<sup>(2)</sup> International sales include sales from contracts for which we are the prime contractor, as well as those for which we are a subcontractor and the ultimate customer is an international customer. These sales include foreign military sales contracted through the U.S. government.

<sup>(3)</sup> Percentages calculated based on total segment sales.



## NORTHROP GRUMMAN CORPORATION

## Sales by Contract Type

<i>\$ in millions</i>	Three Months Ended March 31			
	2020		2019	
	\$	% <sup>(1)</sup>	\$	% <sup>(1)</sup>
<b>Aeronautics Systems</b>				
Cost-type	\$ 1,343	48%	\$ 1,312	47%
Fixed-price	1,474	52%	1,482	53%
Intersegment sales	26		24	
Aeronautics Systems sales	2,843		2,818	
<b>Defense Systems</b>				
Cost-type	628	37%	623	39%
Fixed-price	1,082	63%	978	61%
Intersegment sales	171		167	
Defense Systems sales	1,881		1,768	
<b>Mission Systems</b>				
Cost-type	846	39%	835	41%
Fixed-price	1,325	61%	1,178	59%
Intersegment sales	176		197	
Mission Systems sales	2,347		2,210	
<b>Space Systems</b>				
Cost-type	1,398	73%	1,306	73%
Fixed-price	524	27%	475	27%
Intersegment sales	26		20	
Space Systems sales	1,948		1,801	
<b>Total</b>				
Cost-type	4,215	49%	4,076	50%
Fixed-price	4,405	51%	4,113	50%
<b>Total Sales</b>	<b>\$ 8,620</b>		<b>\$ 8,189</b>	

<sup>(1)</sup> Percentages calculated based on external customer sales.

**NORTHROP GRUMMAN CORPORATION**
*Sales by Geographic Region*

<i>\$ in millions</i>	Three Months Ended March 31			
	2020		2019	
	\$	% <sup>(2)</sup>	\$	% <sup>(2)</sup>
<b>Aeronautics Systems</b>				
United States	\$ 2,373	84%	\$ 2,359	85%
Asia/Pacific	207	8%	233	8%
All other <sup>(1)</sup>	237	8%	202	7%
Intersegment sales	26		24	
Aeronautics Systems sales	2,843		2,818	
<b>Defense Systems</b>				
United States	1,370	80%	1,238	77%
Asia/Pacific	82	5%	88	6%
All other <sup>(1)</sup>	258	15%	275	17%
Intersegment sales	171		167	
Defense Systems sales	1,881		1,768	
<b>Mission Systems</b>				
United States	1,688	78%	1,637	81%
Asia/Pacific	176	8%	135	7%
All other <sup>(1)</sup>	307	14%	241	12%
Intersegment sales	176		197	
Mission Systems sales	2,347		2,210	
<b>Space Systems</b>				
United States	1,854	97%	1,738	98%
Asia/Pacific	5	—%	12	—%
All other <sup>(1)</sup>	63	3%	31	2%
Intersegment sales	26		20	
Space Systems sales	1,948		1,801	
<b>Total</b>				
United States	7,285	85%	6,972	85%
Asia/Pacific	470	5%	468	6%
All other <sup>(1)</sup>	865	10%	749	9%
<b>Total Sales</b>	<b>\$ 8,620</b>		<b>\$ 8,189</b>	

<sup>(1)</sup> All other is principally comprised of Europe and the Middle East.

<sup>(2)</sup> Percentages calculated based on external customer sales.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

### Results of Review of Interim Financial Information

We have reviewed the accompanying condensed consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries (the “Company”) as of March 31, 2020, 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, 2020 and 2019, and the related notes (collectively referred to as the “interim financial information”). Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it 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) (PCAOB), the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2019, and the related consolidated statements of earnings and comprehensive income, changes in shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated January 29, 2020, we expressed an unqualified opinion on those consolidated financial statements, which included an explanatory paragraph regarding the Company’s change in its method of accounting for leases in 2019 due to the adoption of ASC 842, *Leases*. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2019, is fairly stated, in all material respects, in relation to the audited consolidated statement of financial position from which it has been derived.

### Basis for Review Results

This interim financial information is the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with standards of the PCAOB. 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 PCAOB, 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.

/s/ Deloitte & Touche LLP  
McLean, Virginia  
April 28, 2020

**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 aerospace and defense company. We use our broad portfolio of capabilities and technologies to create and deliver innovative platforms, systems and solutions in space; manned and autonomous airborne systems, including strike; hypersonics; cyber; command, control, communications and computers, intelligence, surveillance and reconnaissance (C4ISR); and logistics and modernization. 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, as well as commercial customers.

The following discussion should be read along with the financial statements included in this Form 10-Q, as well as our 2019 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 2019 Annual Report on Form 10-K to reflect changes in the company’s reportable segments. These documents provide additional information on our business and the environment in which we operate and our operating results.

**COVID-19**

Coronavirus disease 2019 (“COVID-19”) was first reported in late 2019 and has since dramatically impacted the global health and economic environment, including millions of confirmed cases, business slowdowns or shutdowns, government challenges and market volatility. In March 2020, the World Health Organization characterized COVID-19 as a global pandemic, and the President declared a national emergency concerning the COVID-19 outbreak. The company’s leadership and Crisis Management Teams have closely monitored the developments, including the impact on our company, our employees, our customers, our suppliers and our communities. They have considered guidance from the Centers for Disease Control (CDC), other health organizations, governments and our customers. We have taken, and continue to take, actions to help protect the health, safety and well-being of our employees, to support our suppliers and local communities, and to continue to serve our customers. Our goals have been to lessen the immediate potential adverse impacts, both health and economic, and to continue to position the company for long-term success. Among other actions, we have required employees to work from home or remotely where practicable, and expanded IT and communication support to enhance their productivity; adjusted work spaces and shift schedules to facilitate social distancing for those who continue to work in our facilities; implemented visitor protocols and enhanced cleaning and disinfecting procedures at our facilities; worked to procure and distribute personal protective equipment (“PPE”); restricted travel; provided additional paid time off for those most at risk; and contributed financial and manufacturing resources to supporting critical national requirements, such as for PPE. Along with the Northrop Grumman Foundation, we have provided grants for global, national and local organizations that support frontline healthcare workers, address food insecurity, advance efforts for vaccines, increase student access to technology and provide support to vulnerable populations; donated PPE items to emergency response teams and healthcare professionals, including N95 masks and Tyvek suits; and established a COVID-19 relief matching gift program for employees.

As a result of COVID-19, many state and local jurisdictions have implemented mandatory stay-at-home or shelter-in-place orders. To date, most of those orders have exempted some or all of the defense industrial base, including Northrop Grumman and many of our suppliers, as part of the essential or critical infrastructure. Our facilities have largely remained open and many of our employees who cannot work remotely are continuing to come to work and support our customers’ national security and mission-essential operations. Even though we have been able to continue many of our operations, we have experienced and expect to continue to experience certain increasing costs to maintain our operations and reductions in productivity, including as a result of actions to protect health; because of illness, quarantines, and absenteeism; as a result of government actions; and because of disruption and stress among our suppliers and customers. We continue to monitor this situation closely and cannot predict how it will change. Our customers have generally continued to make timely payments, and we are working with them to consider the possibility of additional cost recoveries. Again, however, our customers are facing tremendous demands and we cannot predict how this may change and how they will continue to allocate resources.

Financial impacts related to COVID-19, including our actions and costs in response to the pandemic, were not material to the company’s first quarter 2020 financial position, results of operations or cash flows. Going forward, we currently expect the COVID-19 crisis to result in a reduction to 2020 revenue and operating margins in portions of our business driven primarily by supplier disruption, changes in employee productivity, and related program delays or challenges. Our employees, suppliers and customers, the company and our global community are facing

**NORTHROP GRUMMAN CORPORATION**

tremendous challenges and we cannot predict how this dynamic situation will evolve or the impact it will have. For further information on the potential impact to the company of COVID-19, see “Risk Factors”.

**U.S. Political and Economic Environment**

Since the filing of our 2019 Annual Report on Form 10-K, the President released his budget request for fiscal year 2021 (FY21) on February 10, 2020. The FY21 budget request includes \$746 billion for national security, which will be the subject of debate in Congress. The FY21 budget request addresses various capabilities highlighted in the U.S. National Security Strategy, the National Defense Strategy and the Missile Defense Review. We believe our capabilities, particularly in space, missiles, missile defense, hypersonics, counter-hypersonics, survivable aircraft and cyber will continue to allow for long-term profitable growth in our business in support of our customers’ needs. Congress has enacted emergency COVID-19 relief bills addressing certain impacts of the pandemic.

**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		%
	2020	2019	
Sales	\$ 8,620	\$ 8,189	5 %
Operating costs and expenses	7,686	7,253	6 %
<i>Operating costs and expenses as a % of sales</i>	<b>89.2%</b>	88.6%	
Operating income	934	936	— %
<i>Operating margin rate</i>	<b>10.8%</b>	11.4%	
Federal and foreign income tax expense	185	171	8 %
<i>Effective income tax rate</i>	<b>17.6%</b>	16.5%	
Net earnings	868	863	1 %
Diluted earnings per share	\$ 5.15	\$ 5.06	2 %

**Sales**

First quarter 2020 sales increased \$431 million, or 5 percent, due to higher sales at all four sectors.

See “Segment Operating Results” below for further information by segment and “Product and Service Analysis” for product and service detail. See Note 9 to the financial statements for information regarding the company’s sales by customer type, contract type and geographic region for each of our segments.

**Operating Income and Margin Rate**

First quarter 2020 operating income was comparable to the prior year period. First quarter 2020 operating margin rate declined to 10.8 percent reflecting lower segment operating margins at Aeronautics Systems and Defense Systems, partially offset by a decrease in unallocated corporate expense.

First quarter 2020 general and administrative (G&A) costs as a percentage of sales decreased to 9.1 percent from 9.3 percent primarily due to cost management and higher sales.

See “Segment Operating Results” below for further information by segment. For information regarding product and service operating costs and expenses, see “Product and Service Analysis” below.

**Federal and Foreign Income Taxes**

The first quarter 2020 effective tax rate increased to 17.6 percent from 16.5 percent in the first quarter of 2019 primarily due to nondeductible losses on marketable securities and an increase in reserves for uncertain tax positions. These were partially offset by an increase in research credits. See Note 3 to the financial statements for additional information.

**Net Earnings**

First quarter 2020 net earnings were comparable to the prior year period and include a \$102 million increase in our FAS (non-service) pension benefit, partially offset by a \$94 million decrease in Other, net as a result of lower returns on marketable securities related to our non-qualified benefit plans.

**NORTHROP GRUMMAN CORPORATION****Diluted Earnings Per Share**

First quarter 2020 diluted earnings per share increased 2 percent, reflecting a 1 percent increase in net earnings and a 1 percent reduction in weighted-average diluted shares outstanding.

**SEGMENT OPERATING RESULTS****Basis of Presentation**

Effective January 1, 2020, the company reorganized its operating sectors to better align the company's broad portfolio to serve its customers' needs. The four new sectors, which also comprise our reportable segments, are Aeronautics Systems, Defense Systems, Mission Systems and Space Systems. This realignment is reflected in the accompanying financial information.

We present our sectors in the following business areas, which are reported in a manner reflecting core capabilities:

<b>Aeronautics Systems</b>	<b>Defense Systems</b>	<b>Mission Systems</b>	<b>Space Systems</b>
Autonomous Systems	Battle Management & Missile Systems	Airborne Sensors & Networks	Launch & Strategic Missiles
Manned Aircraft	Mission Readiness	Cyber & Intelligence Mission Solutions	Space
		Maritime/Land Systems & Sensors	
		Navigation, Targeting & Survivability	

This section discusses segment sales, operating income and operating margin rates. In evaluating segment operating performance, we look primarily at changes in sales and operating income. 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 of results of operations below first focuses on our four segments before distinguishing between products and services. Changes in sales are generally described in terms of volume, while changes in margin rates are generally described in terms of performance and/or contract mix. For purposes of this discussion, volume generally refers to increases or decreases in sales or cost from production/service activity levels and performance generally refers to non-volume related changes in profitability. Contract mix generally refers to changes in the ratio of contract type and/or lifecycle (e.g., cost-type, fixed-price, development, production, and/or sustainment).

**NORTHROP GRUMMAN CORPORATION**
**Segment Operating Income and Margin Rate**

Segment operating income, as reconciled in the table below, and segment operating margin rate (segment operating income divided by sales) are non-GAAP (accounting principles generally accepted in the United States of America) measures that reflect total earnings from our four segments, including allocated pension expense we have recognized under the Federal Acquisition Regulation (FAR) and the related U.S. Government Cost Accounting Standards (CAS), and excluding FAS pension expense and unallocated corporate items (certain corporate-level expenses, which are not considered allowable or allocable under applicable CAS or FAR, and costs not considered part of management's evaluation of segment operating performance). These non-GAAP measures may be useful to investors and other users of our financial statements as supplemental measures in evaluating the financial performance and operational trends of our sectors. These measures may not be defined and calculated by other companies in the same manner and should not be considered in isolation or as alternatives to operating results presented in accordance with GAAP.

<i>\$ in millions</i>	Three Months Ended March		%
	2020	2019	
Segment operating income	\$ 953	\$ 967	(1)%
Segment operating margin rate	11.1%	11.8%	
CAS pension expense	207	200	4%
Less: FAS (service) pension expense	(102)	(92)	11%
Net FAS (service)/CAS pension adjustment	105	108	(3)%
Intangible asset amortization and PP&E step-up depreciation	(82)	(96)	(15)%
Other unallocated corporate expense	(42)	(43)	(2)%
Unallocated corporate expense	(124)	(139)	(11)%
Operating income	\$ 934	\$ 936	—%

First quarter 2020 segment operating income decreased \$14 million, or 1 percent, and reflects lower segment operating income at Aeronautics Systems, partially offset by higher segment operating income at Mission Systems and Space Systems. Segment operating margin rate decreased to 11.1 percent primarily due to lower segment operating margins at Aeronautics Systems and Defense Systems.

Net FAS (service)/CAS Pension Adjustment

The first quarter 2020 net FAS (service)/CAS pension adjustment is comparable to the prior year period and reflects changes in actuarial assumptions as of December 31, 2019.

Unallocated Corporate (Expense) Income

The decrease in first quarter 2020 unallocated corporate expense is primarily due to \$14 million of lower intangible asset amortization and PP&E step-up depreciation.

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

<i>\$ in millions</i>	Three Months Ended March	
	2020	2019
Favorable EAC adjustments	\$ 276	\$ 235
Unfavorable EAC adjustments	(152)	(97)
Net EAC adjustments	\$ 124	\$ 138

**NORTHROP GRUMMAN CORPORATION**

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

<i>\$ in millions</i>	Three Months Ended March	
	2020	2019
Aeronautics Systems	\$ 12	\$ 51
Defense Systems	22	32
Mission Systems	79	35
Space Systems	12	21
Eliminations	(1)	(1)
Net EAC adjustments	\$ 124	\$ 138

For purposes of the discussion in the remainder of this Segment Operating Results section, references to operating income and operating margin rate reflect segment operating income and segment operating margin rate, respectively.

**AERONAUTICS SYSTEMS**

<i>\$ in millions</i>	Three Months Ended March		% Change
	2020	2019	
Sales	\$ 2,843	\$ 2,818	1%
Operating income	259	308	(16)%
Operating margin rate	9.1%	10.9%	

**Sales**

First quarter 2020 sales increased \$25 million, or 1 percent, due to higher sales in both Autonomous Systems and Manned Aircraft. Higher volume on restricted programs and Global Hawk were partially offset by lower volume on the B-2 Defensive Management System Modernization program and NATO AGS, which are both nearing completion.

**Operating Income**

First quarter 2020 operating income decreased \$49 million, or 16 percent, principally due to a lower operating margin rate. Operating margin rate decreased to 9.1 percent from 10.9 percent, due to lower net EAC adjustments at Autonomous Systems as well as the timing of F-35 risk retirements and contract mix at Manned Aircraft.

**DEFENSE SYSTEMS**

<i>\$ in millions</i>	Three Months Ended March		% Change
	2020	2019	
Sales	\$ 1,881	\$ 1,768	6%
Operating income	196	202	(3)%
Operating margin rate	10.4%	11.4%	

**Sales**

First quarter 2020 sales increased \$113 million or 6 percent, due to higher sales in both Battle Management & Missile Systems and Mission Readiness. Battle Management & Missile Systems sales increased primarily due to higher volume on the Guided Multiple Launch Rocket System (GMLRS), Advanced Anti-Radiation Guided Missile (AARGM) program and other missile products. Mission Readiness sales increased principally due to higher volume on an international training program and the Special Electronic Mission Aircraft program.

**Operating Income**

First quarter 2020 operating income decreased \$6 million, or 3 percent, primarily due to a lower operating margin rate, partially offset by higher sales. Operating margin rate decreased to 10.4 percent from 11.4 percent primarily due to favorable adjustments on certain small caliber ammunition programs in the first quarter of 2019.



**NORTHROP GRUMMAN CORPORATION****MISSION SYSTEMS**

<i>\$ in millions</i>	Three Months Ended March 31		% <b>Change</b>
	2020	2019	
Sales	\$ 2,347	\$ 2,210	6%
Operating income	348	319	9%
<i>Operating margin rate</i>	14.8%	14.4%	

**Sales**

First quarter 2020 sales increased \$137 million, or 6 percent, primarily due to higher volume on Airborne Sensors & Networks and Maritime/Land Systems & Sensors programs. Airborne Sensors & Networks sales increased principally due to higher airborne radar volume, including on the F-35 and SABR programs. Maritime/Land Systems & Sensors sales increased primarily due to higher volume on marine systems and restricted programs.

**Operating Income**

First quarter 2020 operating income increased \$29 million, or 9 percent, due to higher sales and a higher operating margin rate. Operating margin rate increased to 14.8 percent from 14.4 percent primarily due to improved performance on Airborne Sensors & Networks programs, partially offset by changes in contract mix at Maritime/Land Systems & Sensors and the timing of risk retirements at Navigation, Targeting & Survivability.

**SPACE SYSTEMS**

<i>\$ in millions</i>	Three Months Ended March 31		% <b>Change</b>
	2020	2019	
Sales	\$ 1,948	\$ 1,801	8%
Operating income	199	188	6%
<i>Operating margin rate</i>	10.2%	10.4%	

**Sales**

First quarter 2020 sales increased \$147 million, or 8 percent, primarily due to higher sales in Space, partially offset by lower sales in Launch & Strategic Missiles. Space sales were driven by higher volume on restricted programs, Next Generation Overhead Persistent Infrared Radar (Next Gen OPIR) and the Arctic Satellite Broadband Mission (ASBM) program. Launch & Strategic Missiles sales reflect lower volume on the Ground-based Midcourse Defense (GMD) program and Space Launch System (SLS) Booster, partially offset by higher volume on hypersonic programs and the Ground Based Strategic Deterrent (GBSD) Technology Maturation Risk Reduction (TMRR) program.

**Operating Income**

First quarter 2020 operating income increased \$11 million, or 6 percent, primarily due to higher sales, partially offset by a lower operating margin rate. Operating margin rate decreased to 10.2 percent from 10.4 percent principally due to the timing of favorable negotiations on certain commercial contracts recognized in the first quarter of 2019.

**NORTHROP GRUMMAN CORPORATION**
**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			
	2020		2019	
<b>Segment Information:</b>	<b>Sales</b>	<b>Operating Costs and Expenses</b>	<b>Sales</b>	<b>Operating Costs and Expenses</b>
<b>Aeronautics Systems</b>				
Product	\$ 2,409	\$ 2,202	\$ 2,405	\$ 2,144
Service	408	359	389	344
Intersegment eliminations	26	23	24	22
<b>Total Aeronautics Systems</b>	<b>2,843</b>	<b>2,584</b>	<b>2,818</b>	<b>2,510</b>
<b>Defense Systems</b>				
Product	770	705	621	558
Service	940	827	980	859
Intersegment eliminations	171	153	167	149
<b>Total Defense Systems</b>	<b>1,881</b>	<b>1,685</b>	<b>1,768</b>	<b>1,566</b>
<b>Mission Systems</b>				
Product	1,508	1,277	1,382	1,163
Service	663	572	631	559
Intersegment eliminations	176	150	197	169
<b>Total Mission Systems</b>	<b>2,347</b>	<b>1,999</b>	<b>2,210</b>	<b>1,891</b>
<b>Space Systems</b>				
Product	1,489	1,327	1,320	1,169
Service	433	398	461	426
Intersegment eliminations	26	24	20	18
<b>Total Space Systems</b>	<b>1,948</b>	<b>1,749</b>	<b>1,801</b>	<b>1,613</b>
<b>Segment Totals</b>				
Total Product	\$ 6,176	\$ 5,511	\$ 5,728	\$ 5,034
Total Service	2,444	2,156	2,461	2,188
<b>Total Segment<sup>(1)</sup></b>	<b>\$ 8,620</b>	<b>\$ 7,667</b>	<b>\$ 8,189</b>	<b>\$ 7,222</b>

<sup>(1)</sup> A reconciliation of segment operating income to total operating income is included in "Segment Operating Results."

**Product Sales and Costs**

First quarter 2020 product sales increased \$448 million, or 8 percent. The increase was primarily due to higher volume on restricted and Next Gen OPIR programs at Space Systems, higher sales on missile products at Defense Systems and higher airborne radar and F-35 volume at Mission Systems.

First quarter 2020 product costs increased \$477 million, or 9 percent, consistent with the higher product sales described above and principally reflects a lower product margin at Aeronautics Systems due to lower net favorable EAC adjustments.

**Service Sales and Costs**

First quarter 2020 service sales decreased \$17 million, or 1 percent, due to lower service sales at Defense Systems and Space Systems, partially offset by higher service sales at Mission Systems.

First quarter 2020 service costs decreased \$32 million, or 1 percent, consistent with the lower service sales described above and reflects higher service margin rates at Mission Systems.

**NORTHROP GRUMMAN CORPORATION****BACKLOG**

Backlog represents the future sales we expect to recognize on firm orders received by the company and is equivalent to the company's remaining performance obligations at the end of each period. It comprises 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 an option or IDIQ task order is exercised or awarded. Backlog is converted into sales as costs are incurred or deliveries are made.

Backlog consisted of the following as of March 31, 2020 and December 31, 2019:

<i>\$ in millions</i>	March 31, 2020			December 31, 2019	% Change in 2020
	Funded	Unfunded	Total Backlog	Total Backlog	
Aeronautics Systems	\$ 11,642	\$ 13,544	\$ 25,186	\$ 26,021	(3)%
Defense Systems	6,462	1,719	8,181	8,481	(4)%
Mission Systems	9,336	4,840	14,176	14,226	— %
Space Systems	5,082	11,542	16,624	16,112	3 %
Total backlog	\$ 32,522	\$ 31,645	\$ 64,167	\$ 64,840	(1)%

**New Awards**

First quarter 2020 net awards totaled \$7.9 billion and backlog totaled \$64.2 billion. Significant first quarter new awards include restricted competitive prime space contracts totaling multiple billions of dollars in the aggregate; \$339 million for the Scalable Agile Beam Radar (SABR) program, \$281 million for the Triton program, \$165 million for the Advanced Anti-Radiation Guided Missile (AARGM) program and \$160 million for the Ground-based Midcourse Defense (GMD) program.

**LIQUIDITY AND CAPITAL RESOURCES**

We endeavor to ensure efficient conversion of operating income into cash and to increase shareholder value through cash deployment activities. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including cash used in operating activities and free cash flow, a non-GAAP measure described in more detail below.

At March 31, 2020, we had \$3.3 billion in cash and cash equivalents. In March 2020, we issued \$2.25 billion of unsecured senior notes to help preserve financial flexibility in light of uncertainty resulting from the COVID-19 pandemic. We intend to use those proceeds for general corporate purposes, which may include debt repayment and working capital. In April 2020, we entered into a one-year \$500 million uncommitted credit facility to provide an additional source of potential financing.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") established a program with provisions to allow U.S. companies to defer the employer's portion of social security taxes between March 27, 2020 and December 31, 2020 and pay such taxes in two installments in 2021 and 2022. In addition, the U.S. Department of Defense (DoD) has, to date, taken steps to increase the rate for certain progress payments from 80 percent to 90 percent for costs incurred and work performed on relevant contracts. We expect both of these actions should help to mitigate COVID-19 related negative impacts to our operating cash flows for the remainder of the year.

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

**NORTHROP GRUMMAN CORPORATION**
**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		
	2020	2019	Change
Net earnings	\$ 868	\$ 863	1 %
Non-cash items <sup>(1)</sup>	471	361	30 %
Changes in assets and liabilities:			
Trade working capital	(2,163)	(1,964)	10 %
Retiree benefits	(237)	(142)	67 %
Other, net	68	(31)	NM
Net cash used in operating activities	\$ (993)	\$ (913)	(9)%

<sup>(1)</sup> Includes depreciation and amortization, non-cash lease expense, stock based compensation expense and deferred income taxes.

First quarter 2020 cash used in operating activities increased \$80 million principally due to the timing of trade working capital. The net use of cash during the first quarter is consistent with the company's historical timing of operating cash flows, which are generally more heavily weighted toward the second half of the year.

**Free Cash Flow**

Free cash flow, as reconciled in the table below, is a non-GAAP measure defined as net cash used in operating activities less capital expenditures, and may not be defined and calculated by other companies in the same manner. We use free cash flow as a key factor in our planning for, and consideration of, acquisitions, the payment of dividends and stock repurchases. This non-GAAP measure may be useful to investors and other users of our financial statements as a supplemental measure of our cash performance, but should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating cash flows presented in accordance with GAAP.

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

<i>\$ in millions</i>	Three Months Ended March		%
	31		
	2020	2019	Change
Net cash used in operating activities	\$ (993)	\$ (913)	(9)%
Less: capital expenditures	(272)	(284)	(4)%
Free cash flow	\$ (1,265)	\$ (1,197)	(6)%

First quarter 2020 free cash flow decreased \$68 million principally due to the increase in net cash used in operating activities.

**Investing Cash Flow**

First quarter 2020 net cash used in investing activities decreased to \$270 million from \$280 million principally due to lower capital expenditures.

**Financing Cash Flow**

First quarter 2020 net cash provided by financing activities increased to \$2.3 billion from \$462 million principally due to \$2.2 billion of net proceeds from the issuance of long-term debt in the first quarter of 2020, partially offset by share repurchases in the quarter.

*Credit Facilities, Commercial Paper and Financial Arrangements* - See Note 6 to the financial statements for further information on our credit facilities, commercial paper and our use of standby letters of credit and guarantees.

*Share Repurchases* - See Note 2 to the financial statements for further information on our share repurchase programs.

*Long-term Debt* - See Note 4 to the financial statements for further information.

## **NORTHROP GRUMMAN CORPORATION**

### **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 2019 Annual Report on Form 10-K.

### **ACCOUNTING STANDARDS UPDATES**

See Note 1 to our financial statements for further information on accounting standards updates.

### **FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

This Form 10-Q and the information we are incorporating by reference contain statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “will,” “expect,” “anticipate,” “intend,” “may,” “could,” “should,” “plan,” “project,” “forecast,” “believe,” “estimate,” “outlook,” “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/or 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 2019 Annual Report on Form 10-K, this Form 10-Q and from time to time in our other filings with the Securities and Exchange Commission (SEC). These risks and uncertainties are amplified by the global COVID-19 pandemic, which has caused and will continue to cause significant challenges, instability and uncertainty. They include:

- the impact of the COVID-19 outbreak or future epidemics on our business, including the potential for worker absenteeism, facility closures, work slowdowns or stoppages, supply chain disruptions, program delays, our ability to recover costs under contracts, changing government funding and acquisition priorities and processes, changing government payment rules and practices, and potential impacts on access to capital, the markets and the fair value of our assets;
- our dependence on the U.S. government for a substantial portion of our business
- significant delays or reductions in appropriations for our programs, and U.S. government funding and program support more broadly
- investigations, claims, disputes, enforcement actions, litigation and/or other legal proceedings
- the use of estimates when accounting for our contracts and the effect of contract cost growth and/or changes in estimated contract revenues and costs
- our exposure to additional risks as a result of our international business, including risks related to geopolitical and economic factors, suppliers, laws and regulations
- the improper conduct of employees, agents, subcontractors, suppliers, business partners or joint ventures in which we participate and the impact on our reputation and our ability to do business
- cyber and other security threats or disruptions faced by us, our customers or our suppliers and other partners
- the performance and financial viability of our subcontractors and suppliers and the availability and pricing of raw materials and components
- changes in procurement and other laws, regulations, contract terms and practices applicable to our industry, findings by the U.S. government as to our compliance with such requirements, and changes in our customers’ business practices globally
- increased competition within our markets and bid protests
- the ability to maintain a qualified workforce with the required security clearances and requisite skills
- our ability to meet performance obligations under our contracts, including obligations that require innovative design capabilities, are technologically complex, require certain manufacturing expertise or are dependent on factors not wholly within our control
- environmental matters, including unforeseen environmental costs and government and third party claims

## **NORTHROP GRUMMAN CORPORATION**

- natural disasters
- health epidemics, pandemics and similar outbreaks, including the global COVID-19 pandemic
- the adequacy and availability of our insurance coverage, customer indemnifications or other liability protections
- products and services we provide related to hazardous and high risk operations, including the production and use of such products, which subject us to various environmental, regulatory, financial, reputational and other risks
- the future investment performance of plan assets, changes in actuarial assumptions associated with our pension and other postretirement benefit plans and legislative or other regulatory actions impacting our pension and postretirement benefit obligations
- our ability appropriately to exploit and/or protect intellectual property rights
- our ability to develop new products and technologies and maintain technologies, facilities, and equipment to win new competitions and meet the needs of our customers
- unanticipated changes in our tax provisions or exposure to additional tax liabilities
- changes in business conditions that could impact business investments and/or recorded goodwill or the value of other long-lived assets

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**

Other than the debt issuance, including associated interest, described in Note 4 of Part I, Item 1, there have been no material changes to our contractual obligations from those discussed in our 2019 Annual Report on Form 10-K.

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

There have been no material changes to our market risks from those discussed in our 2019 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, 2020, 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 SEC'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, 2020, no changes occurred in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control 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 Notes 5 and 6 to the financial statements.

We are a party to various investigations, lawsuits, arbitration, claims, enforcement actions 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 administrative, civil or criminal fines, penalties or other sanctions (which terms include judgments or convictions and consent or other voluntary decrees or agreements); compensatory, treble or other damages; non-monetary relief or actions; or other liabilities. Government regulations 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. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. For additional information on pending matters, please see Notes 5 and 6 to the financial statements, and for further information on the risks we face from existing and future investigations, lawsuits, arbitration, claims, enforcement actions and other legal proceedings, please see “Risk Factors” in our 2019 Annual Report on Form 10-K.

*Environmental Matters Involving Potential Monetary Damages in Excess of \$100,000*

The following environmental matter is reported pursuant to SEC Regulation S-K Item 103 because it involves potential monetary damages in excess of \$100,000. In June 2016, the U.S. Environmental Protection Agency (EPA) conducted an environmental inspection at the Allegheny Ballistics Laboratory in Rocket Center, WV, which was then and is now operated by Alliant Techsystems Operations LLC (“ATO”). ATO became an indirect subsidiary of the Company approximately 2 years later, in June 2018. On March 3, 2020, EPA notified ATO of a proposed penalty for alleged noncompliance with certain air emission, water discharge and waste management permitting and regulatory requirements. EPA proposed a civil penalty totaling \$497,635 and certain non-monetary actions. The Company disputes the allegations and is in discussions with the government.

**Item 1A. Risk Factors**

The following updates and supplements the risk factors described in the section entitled “Risk Factors” in our 2019 Annual Report on Form 10-K, as updated by the Current Report on Form 8-K filed on March 19, 2020. It should be read in conjunction with the risk factors in the 2019 Annual Report on Form 10-K. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in the 2019 Form 10-K which could materially affect our business, financial condition or future results. The COVID-19 pandemic has heightened, and in some cases manifested, certain of the risks we normally face in operating our business, including those disclosed in the 2019 Form 10-K, and the risk factor disclosure in the 2019 Form 10-K is qualified by the information relating to COVID-19 that is described in this Quarterly Report on Form 10-Q, including the updated risk factor set forth below. Except as otherwise described herein, there have been no other material changes from the risk factors previously disclosed in the 2019 Form 10-K.

***•We face various risks related to health epidemics, pandemics and similar outbreaks, which may have material adverse effects on our business, financial position, results of operations and/or cash flows.***

We face various risks related to health epidemics, pandemics and similar outbreaks, including the global outbreak of coronavirus disease 2019 (“COVID-19”). Since first reported in late 2019, the COVID-19 pandemic has dramatically impacted the global health and economic environment, including millions of confirmed cases, business slowdowns or shutdowns, government challenges and market volatility of an unprecedented nature. Although we have, to date, managed to continue most of our operations, we cannot predict the future course of events nor can we assure that this global pandemic, including its economic impact, will not have a material adverse impact on our business, financial position, results of operations and/or cash flows. (For further information relating to our company’s experience to date, and certain steps taken to approach the risks presented by the COVID-19 pandemic, see Management’s Discussion and Analysis of Financial Condition and Results of Operations).

If significant portions of our workforce are unable to work effectively, including because of illness, quarantines or absenteeism; steps the company has taken to protect health and challenges with additional steps (such as securing personal protective equipment and testing); government actions; facility closures; work slowdowns or stoppages; limited supplies or resources; or other circumstances related to COVID-19, our operations will be further impacted. We may be unable to perform fully on our contracts and we may incur liabilities and suffer losses as a result. In addition, we will continue to incur additional costs as a result of the COVID-19 outbreak, including to protect the well-being of our employees, which will likely not be fully recoverable. The continued spread of COVID-19 may

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also affect our ability to hire, develop and retain our talented and diverse workforce, and to maintain our corporate culture.

The continued spread of COVID-19, including the global pandemic and the economic impact, are likely also to cause further disruption in our supply chain. If our suppliers have increased challenges with their workforce (including as a result of illness, absenteeism or government orders), access to necessary components and supplies, access to capital, and access to fundamental support services (such as shipping and transportation), they may be unable to provide the agreed-upon goods and services in a timely, compliant and cost-effective manner. We may incur additional costs and delays in our business, including as a result of higher prices, schedule delays or the need to identify and develop alternative suppliers, and we may need to provide additional resources to support our suppliers or otherwise continue performance under our contracts. In some instances, we may be unable to do that, incurring additional liabilities under our current contracts and hampering new ones.

The global COVID-19 crisis is putting extraordinary pressures on the U.S. government and governments around the world. It could cause delays or limits in the ability of the government and other customers to perform, including making timely payments and awards to us, negotiating contracts and agreeing appropriate costs for recovery, performing quality inspections, supporting testing, accepting delivery, approving security clearances (for individuals and facilities), and providing necessary personnel, equipment and facilities. In addition, as a result of the COVID-19 crisis, there may be changes in our customers' priorities and practices, as our customers in both the United States and globally confront competing budget priorities and more limited resources. These changes may impact current and future programs, government payments and other practices, procurements, and funding decisions.

While we have significant sources of cash and liquidity and access to committed and uncommitted credit lines, a prolonged period of generating lower cash from operations could adversely affect both our financial condition and the achievement of our strategic objectives. Additionally, there can be no assurance that we will not face credit rating downgrades, and such downgrades could adversely affect our cost of funds, liquidity and access to capital markets. The current market volatility will likely also impact investment performance and our expected asset valuations and returns, which can materially impact the calculation of long-term liabilities such as our pension obligations.

We continue to work with our stakeholders (including customers, employees, suppliers and local communities) in an effort to address responsibly this global pandemic. We continue to monitor the situation, to assess further possible implications to our business, supply chain and customers, and to take certain actions in an effort to mitigate various adverse consequences.

We expect that the longer the COVID-19 pandemic, including its economic disruption, continues, the greater the adverse impact on our business operations, financial performance and results of operations will be. Given the tremendous uncertainties and variables, we cannot at this time predict the impact of the global COVID-19 pandemic, but it could have a material adverse impact on our business, financial position, results of operations and/or cash flows.

**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 first quarter of 2020:

<b>Period</b>	<b>Number of Shares Purchased</b>	<b>Average Price Paid per Share<sup>(1)</sup></b>	<b>Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (\$ in millions)</b>
January 1, 2020 - January 24, 2020	204,200	\$ 374.96	204,200	\$ 3,253
January 25, 2020 - February 21, 2020	207,300	369.78	207,300	3,176
February 22, 2020 - March 27, 2020	625,975	313.11	625,975	2,980
<b>Total</b>	<b>1,037,475</b>	<b>\$ 336.61</b>	<b>1,037,475</b>	<b>\$ 2,980</b>

<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, in



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the periods presented, has not made any purchases of common stock other than in connection with these publicly announced repurchase programs. See Note 2 to the financial statements for further information on our share repurchase programs.

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**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 30, 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 \(incorporated by reference to Exhibit 10.2 to Form 8-K filed April 4, 2011, File No. 001-16411\)](#)
- 2.3 [Agreement and Plan of Merger, dated as of September 17, 2017, among Northrop Grumman Corporation, Neptune Merger, Inc. and Orbital ATK, Inc. \(incorporated by reference to Exhibit 2.1 to Form 8-K filed September 18, 2017\)](#)
- 2.4 [Transaction Agreement, dated as of April 28, 2014, among Alliant Techsystems Inc., Vista Spinco Inc., Vista Merger Sub Inc. and Orbital Sciences Corporation \(incorporated by reference to Exhibit 2.1 to Alliant Techsystems Inc. \(now known as Northrop Grumman Innovation Systems, Inc.\) Form 8-K filed May 2, 2014\)](#)
- 4.1 [Ninth Supplemental Indenture, dated as of March 23, 2020, between Northrop Grumman Corporation and The Bank of New York Mellon, as successor to JPMorgan Chase, Trustee, to Indenture dated as of November 21, 2001 \(Incorporated by reference to Exhibit 4.1 to Form 8-K filed March 24, 2020, File No. 001-16411\)](#)
- 4.2 [Form of 4.400% Senior Note due 2030 \(incorporated by reference to Exhibit 4.2 to Form 8-K filed March 24, 2020, File No. 001-16411\)](#)
- 4.3 [Form of 5.150% Senior Note due 2040 \(incorporated by reference to Exhibit 4.3 to Form 8-K filed March 24, 2020, File No. 001-16411\)](#)
- 4.4 [Form of 5.250% Senior Note due 2050 \(incorporated by reference to Exhibit 4.4 to Form 8-K filed March 24, 2020, File No. 001-16411\)](#)
- +\*10.1 [Grant Certificate Specifying the Terms and Conditions Applicable to 2020 Restricted Stock Rights Granted under the 2011 Long-Term Incentive Stock Plan](#)
- +\*10.2 [Grant Certificate Specifying the Terms and Conditions Applicable to 2020 Restricted Stock Performance Rights Granted under the 2011 Long-Term Incentive Stock Plan](#)
- +\*10.3 [Grant Certificate Specifying the Terms and Conditions Applicable to Special 2020 Restricted Stock Rights Granted to Blake Larson and Janis Pamiljans under the 2011 Long-Term Incentive Stock Plan](#)
- +\*10.4 [Letter dated February 3, 2020 from Northrop Grumman Corporation to David Keffer regarding compensation effective February 17, 2020](#)
- +10.5 [Separation Agreement and General Release dated February 5, 2020 from Northrop Grumman Corporation to Kenneth Bedingfield \(incorporated by reference to Exhibit 10.1 to Form 8-K filed February 6, File No. 001-16411\)](#)
- \*15 [Letter from Independent Registered Public Accounting Firm](#)
- \*31.1 [Certification of Kathy J. Warden pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- \*31.2 [Certification of David F. Keffer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- \*\*32.1 [Certification of Kathy J. Warden pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- \*\*32.2 [Certification of David F. Keffer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

**NORTHROP GRUMMAN CORPORATION**

\*101 Northrop Grumman Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, formatted in XBRL (Extensible Business Reporting Language): (i) the Cover Page, (ii) Condensed Consolidated Statements of Earnings and Comprehensive Income, (iii) Condensed Consolidated Statements of Financial Position, (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statements of Changes in Shareholders' Equity, and (vi) Notes to Condensed Consolidated Financial Statements. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

\*104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

+ Management contract or compensatory plan or arrangement

\* Filed with this report

\*\* Furnished with this report

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**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 28, 2020

# **NORTHROP GRUMMAN CORPORATION**

## **2020 RESTRICTED STOCK RIGHTS GRANT AGREEMENT**

This 2020 Restricted Stock Rights Grant Agreement (“Agreement”) applies to certain “Restricted Stock Rights” (“RSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2020 under its 2011 Long-Term Incentive Stock Plan. If you were granted an RSR award by the Company in 2020, 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. This Agreement applies only with respect to the 2020 RSR award, and you are subject to this Agreement upon accepting your grant. 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 this Agreement, 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 by entering into this Agreement 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, 3, 4 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 60 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 this Agreement, “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 this Agreement, 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 60 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 this Agreement 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 60 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

20 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 Forfeiture or Recoupment of Awards.** If, prior to payment or issuance of shares with respect to the award, Grantee's employment is terminated for Cause (or Grantee has engaged in misconduct that could have resulted in Grantee's termination of employment for Cause if Grantee had remained an employee), the Company may reduce or eliminate any payments or issuances of shares with respect to the award. Further, 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. 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 Executive Leadership Team Contribution.** You acknowledge and agree that as a member of the Executive Leadership Team ("ELT"), 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 autonomous systems, cyber, C4ISR, space, strike, sensors, electronics, and logistics and modernization. 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 ELT 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 this Agreement and as consideration for the restrictive covenants set forth in this Section 4.

**4.2 Non-Competition.** For a period of twelve (12) 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, participate in, or support 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 for resources 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 autonomous systems, cyber, C4ISR, space, strike, sensors, electronics, and logistics and modernization.

**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 engaged, or about whom you received confidential, sensitive, or proprietary information, in the course of your employment with 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 twenty-four (24) 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 information in the course of your employment with 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 legal process, including



government investigation, or as otherwise provided by law.

**4.6 Exceptions.** You may request an exception to the covenants in Sections 4.2, 4.3, or 4.4 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 Sections 4.2, 4.3, and 4.4 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 Sections 4.2, 4.3, or 4.4 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 section 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 this Agreement 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 60 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 within 60 days of the Grantee's death or Disability, as the case may be, 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 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 CTM H200 USHR 2-32, 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 this Agreement, 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 this Agreement 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 this Agreement, 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 this Agreement, 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 this Agreement 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 this Agreement and/or the Plan, the provisions of this Agreement 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 the number of shares equal to 50% of the total payout of Vested RSRs (net of taxes withheld) 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 payout of 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. If Grantee is paid less than 50% of the total payout of Vested RSRs (net of taxes) in shares, then all of the shares received will be subject to the holding period requirements in this Section 11. 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 this Agreement, 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) Willful misconduct by the Grantee that causes financial or reputational harm 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

## 2020 RESTRICTED PERFORMANCE STOCK RIGHTS GRANT AGREEMENT

This 2020 Restricted Performance Stock Rights Grant Agreement (“Agreement”) applies to certain “Restricted Performance Stock Rights” (“RPSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2020 under its 2011 Long-Term Incentive Stock Plan. If you were granted an RPSR award by the Company in 2020, 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. This Agreement applies only with respect to the 2020 RPSR award, and you are subject to this Agreement upon accepting your grant. 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, 2020 to December 31, 2022 (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 this Agreement, 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, by entering into this Agreement 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, 3, 4 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 this Agreement, “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.

## 1. **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 20 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 Continuation 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 this Agreement, 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 this Agreement with respect to such RPSRs.

## **2. 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 Forfeiture or Recoupment of Awards.** If, prior to payment or issuance of shares with respect to the award, Grantee's employment is terminated for Cause (or Grantee has engaged in misconduct that could have resulted in Grantee's termination of employment for Cause if Grantee had remained an employee), the Company may reduce or eliminate any payments or issuances of shares with respect to the award. Further, 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. 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 Executive Leadership Team Contribution.** You acknowledge and agree that as a member of the Executive Leadership Team ("ELT"), 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 autonomous systems, cyber, C4ISR, space, strike, sensors, electronics, and logistics and modernization. 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 ELT 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 this Agreement and as consideration for the restrictive covenants set forth in this Section 4.

**4.2 Non-Competition.** For a period of twelve (12) 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, participate in, or support 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 for resources 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 autonomous systems, cyber, C4ISR, space, strike, sensors, electronics, and logistics and modernization.

**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 engaged, or about whom you received confidential, sensitive, or proprietary information, in the course of your employment with 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 twenty-four (24) 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 information in the course of your employment with 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 legal process, including government investigation or as otherwise provided by law.

**4.6 Exceptions.** You may request an exception to the covenants in Sections 4.2, 4.3, or 4.4 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 Sections 4.2, 4.3, and 4.4 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 Section 4.2, 4.3, or 4.4 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 section 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 this

Agreement 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.*** This Agreement is designed to be exempt from Code Section 409A, and the Committee shall administer and construe 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 CTM H200 USHR 2-32, 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 this Agreement, 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 this Agreement 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 this Agreement, 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 this Agreement, 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 this Agreement 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 this Agreement and/or the Plan, the provisions of this Agreement 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 the number of shares equal to 50% of the total payout of Vested RPSRs (net of taxes withheld) 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 payout of Vested 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. If Grantee is paid less than 50% of the total payout of Vested RPSRs (net of taxes) in shares, then all of the shares received will be subject to the holding period requirements in this Section 11. 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 this Agreement, 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) Willful misconduct by the Grantee that causes financial or reputational harm 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 CORPORATION**

## **2020 RESTRICTED STOCK RIGHTS GRANT AGREEMENT**

This 2020 Restricted Stock Rights Grant Agreement (“Agreement”) applies to certain special retention “Restricted Stock Rights” (“RSRs”) granted by Northrop Grumman Corporation (the “Company”) in 2020 under its 2011 Long-Term Incentive Stock Plan. 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. This Agreement applies only with respect to this 2020 RSR award identified in your Grant Letter, and you are subject to this Agreement upon accepting your grant. 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 this Agreement, 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, by entering into this Agreement 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, 3, 4 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 on December 31, 2021.

**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 60 days following the vesting of the RSR on December 31, 2021. 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 this Agreement, "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 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.

**2.5 Continuance of Employment Required.** Except as expressly provided in Section 2.6 and in Section 6, the vesting of the RSRs (and related Dividend Equivalents) subject to the award requires continued employment through December 31, 2021 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 this Agreement, 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 60 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 this Agreement with respect to such vested and unpaid RSRs (and related Dividend Equivalents).

### **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 *Forfeiture or Recoupment of Awards.*** If, prior to payment or issuance of shares with respect to the award, Grantee's employment is terminated for Cause (or Grantee has engaged in misconduct that could have resulted in Grantee's termination of employment for Cause if Grantee had remained an employee), the Company may reduce or eliminate any payments or issuances of shares with respect to the award. Further, 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. 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 *Executive Leadership Team Contribution.*** You acknowledge and agree that as a member of the Executive Leadership Team ("ELT"), 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 autonomous systems, cyber, C4ISR, space, strike, sensors, electronics, and logistics and modernization. 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 ELT 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 this Agreement and as consideration for the restrictive covenants set forth in this Section 4.

**4.2 *Non-Competition.*** For a period of twelve (12) 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, participate in, or support 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 for resources 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 autonomous systems, cyber, C4ISR, space, strike, sensors, electronics, and logistics and modernization.

**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 engaged, or about whom you received confidential,

sensitive, or proprietary information, in the course of your employment with 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 twenty-four (24) 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 information in the course of your employment with 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 legal process, including government investigation, or as otherwise provided by law.

**4.6 Exceptions.** You may request an exception to the covenants in Sections 4.2, 4.3, or 4.4 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 Sections 4.2, 4.3, and 4.4 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 Sections 4.2, 4.3, or 4.4 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 section 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 this Agreement 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, 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 6.2 will be made within 60 days of the termination of the Grantee's 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 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 60 days of the Change in Control.

## **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.** This Agreement is designed to be exempt from Code Section 409A, and the Committee shall administer and construe 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 CTM H200 USHR 2-32, 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 this Agreement, 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 this Agreement 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 this Agreement, 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 this Agreement, 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 this Agreement 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 this Agreement and/or the Plan, the provisions of this Agreement 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 the number of shares equal to 50% of the total payout of Vested RSRs (net of taxes withheld) 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 payout of 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. If Grantee is paid less than 50% of the total payout of Vested RSRs (net of taxes) in shares, then all of the shares received will be subject to the holding period requirements in this Section 11. 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 this Agreement, 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) Willful misconduct by the Grantee that causes financial or reputational harm 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.

**“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.

"**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.

"**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.



February 3, 2020

David Keffer  
6307 29th St N  
Arlington, VA 22207

Dear David,

Northrop Grumman ("Northrop Grumman" or "the Company") is pleased to extend to you the position of Corporate Vice President & Chief Financial Officer and Executive Leadership Team (ELT) member at the bi-weekly salary of \$28,846.15 (which annualizes to a rate of \$750,000). This position reports directly to Kathy Warden, Chief Executive Officer.

In addition to the company's regular benefits, you will be eligible for the special programs highlighted below:

**1. Annual Incentive Plan (AIP)**

The AIP is an annual incentive compensation or "bonus" program in which you will be a participant. The actual award you may receive will be dependent upon the performance of the Company. Awards under this plan are made during the March time period for the previous year's performance. Participation in the AIP program is subject to review and approval annually. For 2020 your target is set at 100% of base salary. Maximum payout is 200% of the target, there is no minimum. This payment is subject to normal payroll deductions. Your participation in the plan will be pro-rated for 2020 based on your actual start date.

**2. Equity Grants**

You will be eligible for annual grants of equity awards under the terms of the Company's Long-Term Incentive Stock Plan (and any successor to such plan) ("LTISP"). These grants are subject to the LTISP and to your accepting the grant by agreeing to the Terms and Conditions applicable thereto ("Grant Certificate"). These grants are typically made in February. Your initial grant for calendar year 2020 shall be a value of \$3,000,000. The exact number of shares will be determined following the Company's next quarterly earnings release following your date of hire and will be based upon the Company's customary award grant valuation methodologies.

This award will be granted in the form of 70% Restricted Performance Stock Rights (RPSRs) and 30% Restricted Stock Rights (RSRs). The RPSRs are performance based stock rights that may be paid in stock units, cash, or a combination of both in February or March following the end of a three-year performance period beginning January 1, 2020 and ending on December 31, 2022, subject to the performance and termination of employment rules set forth in the Grant Certificate. Maximum payout is 150% of the number of shares in the original grant; there is no minimum payout. The RSRs will vest three years from the date of grant subject to the termination of employment rules set forth in the Grant Certificate.

In calendar years following 2020, you will be eligible for further equity grants on the same basis (including guideline amounts for awards) as other Corporate Vice Presidents who are Executive Leadership Team (ELT) members of the company.

**3. Sign-on Grant**

The Company will provide you with a special grant with an approximate value of \$1,000,000. This award will be granted in the form of 70% Restricted Performance Stock Rights (RPSRs) and 30% Restricted Stock Rights (RSRs). This Special 2020 grant shall be granted at the same time as other equity grants described in Section 2 of this letter and shall be subject to all the terms and conditions of the LTISP and the applicable Grant Certificate.

**4. Executive Perquisites**

You will receive the same executive perquisites as other executive officers. Those perquisites currently include reimbursement of up to \$18,500 annually for tax preparation/financial planning, personal liability insurance, and an executive physical examination program. You will also receive the same paid time off (PTO) benefit as other executive officers, who currently receive ten holidays and accrue PTO at a rate of five weeks per calendar year. You will also be covered by the severance plan applicable to other Corporate Policy Council, which currently provides for lump sum severance equivalent to a 1.5x of salary and target bonus, prorated bonus, and continued medical coverage for eighteen months.

**5. Insurance Protection**

You will also be provided company-paid basic life insurance coverage of 3 x base salary (up to a maximum of \$2 million), company-paid basic AD&D coverage of 6 x base salary (up to a maximum of \$1 million) and an individual Long Term Disability policy of up to 75% of base salary.

**6. Retirement Benefits**

You will participate in the Officers Retirement Account Contribution Plan (ORAC) that provides enhanced pension benefits in excess of those accrued under a qualified plan or other non-qualified supplemental pension plans. The ORAC currently provides a Company contribution of four percent of eligible compensation (base salary and bonus).

**7. Compliance with Section 409A**

It is intended that any amounts and benefits payable to you under this offer letter shall comply with and avoid the imputation of any tax, penalty or interest under Section 409A of the Internal Revenue Code ("Section 409A"). This offer letter shall be constructed and interpreted consistent with that intent.

**8. Company's Right to Change Policies and Plans**

Nothing in this offer letter affects or limits the Company's right to amend or terminate its compensation and benefit policies and plans, including, without limitation, the plans listed above or other plans for which you will be eligible.

Elected officers are required to own Company stock valued at three times their annual salary, accumulated over a five-year period, as specified in the Company's Stock Ownership and Holding Requirements. Additionally, the Company implemented a holding-period requirement for all long-term incentive stock grants and requires all officers to hold, for a period of three years, 50% of the net shares (after taxes) received from RPSR and RSR payouts.

David, the above is a summary of the key compensation and benefit provisions of this offer. Additional information about the AIP, your equity grants and retirement benefits will be sent to you under separate cover following your date of hire. This offer and your employment are also subject to the normal pre-employment contingencies applicable to other new hires at Northrop Grumman. Those contingencies are summarized on Attachment A to this letter.

This offer will be valid through February 5, 2020.

If you are in agreement with the terms of this offer, please sign and date this letter on the following page, indicating your estimated start date, and return the letter to me. If you have any questions regarding your employment processing, please contact me.

I look forward to having you join our senior management team.

Sincerely,

/s/ Ann M. Addison  
Northrop Grumman Corporation  
Corporate Vice President and Chief Human Resources Officer 703-280-4211  
[Ann.Addison@ngc.com](mailto:Ann.Addison@ngc.com)

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I hereby accept Northrop Grumman's offer of employment subject to the conditions as detailed above.

Signed: /s/ David Keffer    Date: 2/4/20  
Start Date: 2/17/20

**LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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, 2020, and 2019, as indicated in our report dated April 28, 2020; 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, 2020, 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. 333-237504 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  
April 28, 2020

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kathy J. Warden, 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 28, 2020

/s/ **Kathy J. Warden**

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Kathy J. Warden

Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David F. Keffer, 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 28, 2020

/s/ **David F. Keffer**

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David F. Keffer  
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 Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kathy J. Warden, 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 28, 2020

**/s/ Kathy J. Warden**

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Kathy J. Warden

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 Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, David F. Keffer, 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 28, 2020

**/s/ David F. Keffer**

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David F. Keffer  
Corporate Vice President and Chief Financial Officer