

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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2020

or

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

Commission file number 001-34910

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**HUNTINGTON INGALLS INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**90-0607005**

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

**4101 Washington Avenue Newport News, Virginia 23607**

(Address of principal executive offices and zip code)

**(757) 380-2000**

(Registrant's telephone number, including area code)

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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**

**HII**

**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

Non-Accelerated Filer

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

As of July 31, 2020, 40,492,154 shares of the registrant's common stock were outstanding.

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**HUNTINGTON INGALLS INDUSTRIES, INC.**
**PART I - FINANCIAL INFORMATION**
**Item 1. Financial Statements**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)**

(in millions, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Sales and service revenues				
Product sales	\$ 1,420	\$ 1,520	\$ 3,044	\$ 3,010
Service revenues	607	668	1,246	1,258
Sales and service revenues	2,027	2,188	4,290	4,268
Cost of sales and service revenues				
Cost of product sales	1,253	1,250	2,543	2,508
Cost of service revenues	510	584	1,060	1,078
Income from operating investments, net	7	5	13	9
General and administrative expenses	214	184	428	355
Operating income	57	175	272	336
Other income (expense)				
Interest expense	(25)	(18)	(41)	(34)
Non-operating retirement benefit	30	2	60	5
Other, net	3	5	(10)	6
Earnings before income taxes	65	164	281	313
Federal and foreign income taxes	12	36	56	67
Net earnings	\$ 53	\$ 128	\$ 225	\$ 246
Basic earnings per share	\$ 1.30	\$ 3.07	\$ 5.54	\$ 5.91
Weighted-average common shares outstanding	40.7	41.7	40.6	41.6
Diluted earnings per share	\$ 1.30	\$ 3.07	\$ 5.54	\$ 5.91
Weighted-average diluted shares outstanding	40.7	41.7	40.6	41.6
Dividends declared per share	\$ 1.03	\$ 0.86	\$ 2.06	\$ 1.72
Net earnings from above	\$ 53	\$ 128	\$ 225	\$ 246
Other comprehensive income				
Change in unamortized benefit plan costs	23	24	46	49
Other	1	—	(1)	—
Tax expense for items of other comprehensive income	(6)	(6)	(12)	(12)
Other comprehensive income, net of tax	18	18	33	37
Comprehensive income	\$ 71	\$ 146	\$ 258	\$ 283

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

**HUNTINGTON INGALLS INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)**

(\$ in millions)	June 30, 2020	December 31, 2019
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 631	\$ 75
Accounts receivable, net of allowance for doubtful accounts of \$1 million as of 2020 and \$3 million as of 2019	494	318
Contract assets	1,134	989
Inventoried costs, net	160	136
Income taxes receivable	104	148
Assets held for sale	173	95
Prepaid expenses and other current assets	43	24
<b>Total current assets</b>	<b>2,739</b>	<b>1,785</b>
Property, plant, and equipment, net of accumulated depreciation of \$1,975 million as of 2020 and \$1,961 million as of 2019	2,879	2,832
Operating lease assets	174	201
Goodwill	1,576	1,373
Other intangible assets, net of accumulated amortization of \$625 million as of 2020 and \$599 million as of 2019	542	492
Deferred tax assets	78	108
Miscellaneous other assets	245	240
<b>Total assets</b>	<b>\$ 8,233</b>	<b>\$ 7,031</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 437	\$ 497
Accrued employees' compensation	301	265
Current portion of postretirement plan liabilities	130	130
Current portion of workers' compensation liabilities	230	225
Contract liabilities	573	373
Liabilities held for sale	93	77
Other current liabilities	350	323
<b>Total current liabilities</b>	<b>2,114</b>	<b>1,890</b>
Long-term debt	2,276	1,286
Pension plan liabilities	882	975
Other postretirement plan liabilities	376	380
Workers' compensation liabilities	464	457
Long-term operating lease liabilities	147	164
Other long-term liabilities	296	291
<b>Total liabilities</b>	<b>6,555</b>	<b>5,443</b>
<b>Commitments and Contingencies (Note 16)</b>		
<b>Stockholders' Equity</b>		
Common stock, \$0.01 par value; 150 million shares authorized; 53.3 million shares issued and 40.5 million shares outstanding as of June 30, 2020, and 53.2 million shares issued and 40.8 million shares outstanding as of December 31, 2019	1	1
Additional paid-in capital	1,961	1,961
Retained earnings	3,150	3,009
Treasury stock	(2,058)	(1,974)
Accumulated other comprehensive loss	(1,376)	(1,409)
<b>Total stockholders' equity</b>	<b>1,678</b>	<b>1,588</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 8,233</b>	<b>\$ 7,031</b>

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

**HUNTINGTON INGALLS INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(\$ in millions)	Six Months Ended June 30	
	2020	2019
<b>Operating Activities</b>		
Net earnings	\$ 225	\$ 246
Adjustments to reconcile to net cash provided by (used in) operating activities		
Depreciation	92	83
Amortization of purchased intangibles	26	23
Amortization of debt issuance costs	3	1
Provision for doubtful accounts	6	(2)
Stock-based compensation	13	12
Deferred income taxes	21	30
Loss (gain) on investments in marketable securities	5	(4)
Change in		
Accounts receivable	(167)	(301)
Contract assets	(63)	(238)
Inventoried costs	(13)	(1)
Prepaid expenses and other assets	(4)	(39)
Accounts payable and accruals	172	107
Retiree benefits	(50)	46
Other non-cash transactions, net	3	4
Net cash provided by (used in) operating activities	269	(33)
<b>Investing Activities</b>		
Capital expenditures		
Capital expenditure additions	(150)	(234)
Grant proceeds for capital expenditures	9	69
Acquisitions of businesses, net of cash received	(378)	(196)
Net cash used in investing activities	(519)	(361)
<b>Financing Activities</b>		
Proceeds from issuance of long-term debt	1,000	—
Proceeds from revolving credit facility borrowings	385	3,286
Repayment of revolving credit facility borrowings	(385)	(2,872)
Debt issuance costs	(13)	—
Dividends paid	(84)	(72)
Repurchases of common stock	(84)	(136)
Employee taxes on certain share-based payment arrangements	(13)	(23)
Net cash provided by financing activities	806	183
Change in cash and cash equivalents	556	(211)
Cash and cash equivalents, beginning of period	75	240
Cash and cash equivalents, end of period	\$ 631	\$ 29
<b>Supplemental Cash Flow Disclosure</b>		
Cash paid for income taxes	\$ 23	\$ 89
Cash paid for interest	\$ 32	\$ 35
<b>Non-Cash Investing and Financing Activities</b>		
Capital expenditures accrued in accounts payable	\$ 5	\$ 9

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

**HUNTINGTON INGALLS INDUSTRIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)**

Three Months Ended June 30, 2020 and 2019 (\$ in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance as of March 31, 2019</b>	\$ 1	\$ 1,936	\$ 2,691	\$ (1,796)	\$ (1,269)	\$ 1,563
Net earnings	—	—	128	—	—	128
Dividends declared (\$0.86 per share)	—	—	(36)	—	—	(36)
Stock compensation	—	7	—	—	—	7
Other comprehensive income, net of tax	—	—	—	—	18	18
Treasury stock activity	—	—	—	(52)	—	(52)
<b>Balance as of June 30, 2019</b>	<u>\$ 1</u>	<u>\$ 1,943</u>	<u>\$ 2,783</u>	<u>\$ (1,848)</u>	<u>\$ (1,251)</u>	<u>\$ 1,628</u>
<b>Balance as of March 31, 2020</b>	\$ 1	\$ 1,955	\$ 3,139	\$ (2,058)	\$ (1,394)	\$ 1,643
Net earnings	—	—	53	—	—	53
Dividends declared (\$1.03 per share)	—	—	(42)	—	—	(42)
Stock compensation	—	6	—	—	—	6
Other comprehensive income, net of tax	—	—	—	—	18	18
<b>Balance as of June 30, 2020</b>	<u>\$ 1</u>	<u>\$ 1,961</u>	<u>\$ 3,150</u>	<u>\$ (2,058)</u>	<u>\$ (1,376)</u>	<u>\$ 1,678</u>

Six Months Ended June 30, 2020 and 2019 (\$ in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
<b>Balance as of December 31, 2018</b>	\$ 1	\$ 1,954	\$ 2,609	\$ (1,760)	\$ (1,288)	\$ 1,516
Net earnings	—	—	246	—	—	246
Dividends declared (\$1.72 per share)	—	—	(72)	—	—	(72)
Stock compensation	—	(11)	—	—	—	(11)
Other comprehensive income, net of tax	—	—	—	—	37	37
Treasury stock activity	—	—	—	(88)	—	(88)
<b>Balance as of June 30, 2019</b>	<u>\$ 1</u>	<u>\$ 1,943</u>	<u>\$ 2,783</u>	<u>\$ (1,848)</u>	<u>\$ (1,251)</u>	<u>\$ 1,628</u>
<b>Balance as of December 31, 2019</b>	\$ 1	\$ 1,961	\$ 3,009	\$ (1,974)	\$ (1,409)	\$ 1,588
Net earnings	—	—	225	—	—	225
Dividends declared (\$2.06 per share)	—	—	(84)	—	—	(84)
Other comprehensive income, net of tax	—	—	—	—	33	33
Treasury stock activity	—	—	—	(84)	—	(84)
<b>Balance as of June 30, 2020</b>	<u>\$ 1</u>	<u>\$ 1,961</u>	<u>\$ 3,150</u>	<u>\$ (2,058)</u>	<u>\$ (1,376)</u>	<u>\$ 1,678</u>

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

**HUNTINGTON INGALLS INDUSTRIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. DESCRIPTION OF BUSINESS**

Huntington Ingalls Industries, Inc. ("HII" or the "Company") is one of America's largest military shipbuilding companies and a provider of professional services to partners in government and industry. HII is organized into three reportable segments: Ingalls Shipbuilding ("Ingalls"), Newport News Shipbuilding ("Newport News"), and Technical Solutions. For more than a century, the Company's Ingalls segment in Mississippi and Newport News segment in Virginia have built more ships in more ship classes than any other U.S. naval shipbuilder. The Technical Solutions segment provides a range of services to the governmental, energy, and oil and gas markets.

HII conducts most of its business with the U.S. Government, primarily the Department of Defense ("DoD"). As prime contractor, principal subcontractor, team member, or partner, the Company participates in many high-priority U.S. defense technology programs. Through its Ingalls segment, HII is a builder of amphibious assault and expeditionary ships for the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, and one of only two companies that builds the Navy's current fleet of *Arleigh Burke* class (DDG 51) destroyers. Through its Newport News segment, HII is the nation's sole designer, builder, and refueler of nuclear-powered aircraft carriers, and one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy. The Technical Solutions segment provides a wide range of professional services, including fleet support, mission driven innovative solutions ("MDIS"), nuclear and environmental, and oil and gas services.

**2. BASIS OF PRESENTATION**

*Principles of Consolidation* - The unaudited condensed consolidated financial statements of HII and its subsidiaries have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the instructions to Form 10-Q promulgated by the Securities and Exchange Commission ("SEC"). All intercompany transactions and balances are eliminated in consolidation. For classification of current assets and liabilities related to its long-term production contracts, the Company uses the duration of these contracts as its operating cycle, which is generally longer than one year. Additionally, certain prior year amounts have been reclassified to conform to the current year presentation.

These unaudited condensed consolidated financial statements include all adjustments of a normal recurring nature considered necessary by management for a fair presentation of the unaudited condensed consolidated financial position, results of operations, and cash flows and should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

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 management's long-standing practice to establish interim closing dates using a "fiscal" calendar, which requires the businesses to close their books on a Friday near these quarter-end dates in order to normalize the potentially disruptive effects of quarterly closings on business processes. The effects of this practice only exist for interim periods within a reporting year.

*Accounting Estimates* - The preparation of the Company's unaudited condensed consolidated 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 revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information, and actual results could differ materially from those estimates.

Additionally, the Company has incorporated realized and estimated future effects of the global outbreak of coronavirus disease 2019 ("COVID-19"), including, among other things, orders of civil authorities associated with COVID-19 and steps taken to mitigate the effects of COVID-19 (collectively, "COVID-19 Events"), with respect to contract costs and revenue recognition, effective income tax rates, and the fair values of the Company's long-lived assets, financial instruments, intangible assets, and goodwill recorded at our reporting units. For the three and six months ended June 30, 2020, the Company recognized across all programs an aggregate unfavorable impact on operating margin of \$61 million for delay and disruption from lower employee attendance, availability of critical skills, and out-of sequence work directly attributable to COVID-19 Events. While costs related to COVID-19 Events are

allowable under U.S. Government contracts, the Company's estimates of the effects of COVID-19 Events reflect uncertainty regarding the Company's ability to recover the full costs related to COVID-19 Events under government relief actions such as the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and U.S. Department of Defense ("DoD") guidance.

*Government Grants* - The Company recognizes incentive grants, inclusive of transfers of depreciable assets, from federal, state, and local governments at fair value upon compliance with the conditions of their receipt and reasonable assurance that the grants will be received or the depreciable assets will be transferred. Grants in recognition of specific expenses are recognized in the same period as an offset to those related expenses. Grants related to depreciable assets are recognized over the periods and in the proportions in which depreciation expense on those assets is recognized.

For the six months ended June 30, 2020, the Company recognized cash grant benefits of approximately \$9 million in other long-term liabilities in the unaudited condensed consolidated statements of financial position. For the six months ended June 30, 2019, the Company recognized cash grant benefits of approximately \$69 million in other long-term liabilities in the unaudited condensed consolidated statements of financial position.

*Fair Value of Financial Instruments* - Except for the Company's long-term debt, the carrying amounts of the Company's financial instruments recorded at historical cost approximate fair value due to the short-term nature of the instruments and low credit risk associated with the respective counterparties.

The Company maintains multiple grantor trusts to fund certain non-qualified pension plans. These trusts were valued at \$153 million and \$147 million as of June 30, 2020, and December 31, 2019, respectively, and are presented within miscellaneous other assets within the unaudited condensed consolidated statements of financial position. These trusts consist primarily of investments in marketable securities, which are held at fair value within Level 1 of the fair value hierarchy.

*Loan Receivable* - The Company holds a loan receivable in connection with a seller financed transaction involving its previously owned Avondale shipyard facility. The receivable is carried at amortized cost in the amount of \$32 million, net of \$16 million of loan discount and allowance for doubtful accounts, which approximates fair value and is recorded in miscellaneous other assets on the unaudited condensed consolidated statements of financial position. Interest income is recognized on an accrual basis using the effective yield method. The discount is accreted into income using the effective yield method over the estimated life of the loan receivable.

*Related Party Transactions* - The Company had \$84 million outstanding under Industrial Revenue Bonds issued by the Mississippi Business Finance Corporation as of each of June 30, 2020, and December 31, 2019. Prior to the Company's spinoff from Northrop Grumman Corporation, repayment of principal and interest was guaranteed by Northrop Grumman Systems Corporation. The guaranty remains in effect, and the Company has agreed to indemnify Northrop Grumman Systems Corporation for any losses related to the guaranty pursuant to the Separation and Distribution Agreement with Northrop Grumman Corporation.

### **3. ACCOUNTING STANDARDS UPDATES**

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which changes the current incurred loss model to a forward-looking expected credit loss model for most financial assets, such as trade and other receivables, loans and other instruments. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. Entities are required to apply the provisions of the standard through a cumulative-effect adjustment to retained earnings as of the effective date. The Company adopted the provisions of ASU 2016-13 on January 1, 2020. The adoption did not result in a material impact to the Company's financial results or disclosures.

Accounting pronouncements issued but not effective until after December 31, 2020, are not expected to have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

### **4. ACQUISITIONS**

In March 2020, the Company acquired Hydroid, Inc. ("Hydroid"), a leading provider of advanced marine robotics to the defense and maritime markets, for approximately \$378 million in cash, net of \$2 million of acquired cash. The



acquisition expands the Company's capabilities in the strategically important and rapidly growing autonomous and unmanned maritime systems market. In connection with this acquisition, the Company preliminarily recorded \$310 million of goodwill, which includes the value of Hydroid's workforce, all of which was allocated to the Company's Technical Solutions segment. For the three months ended June 30, 2020, the Company recorded a decrease in goodwill of \$72 million, primarily driven by the refinement of fair value calculations for certain assets and liabilities and the recording of \$76 million of intangible assets related to technology and existing contract backlog. The Company has not completed the purchase price allocation, because a net working capital adjustment and the fair value calculations for certain assets and liabilities have not been finalized. See Note 11: Goodwill and Other Intangible Assets. The assets, liabilities, and results of operations of Hydroid are not material to the Company's consolidated financial position, results of operations, or cash flows.

In February 2019, the Company acquired Fulcrum IT Services, LLC ("Fulcrum"), an information technology and government consulting company, for approximately \$195 million in cash, net of \$1 million of acquired cash. The acquisition was consistent with the Company's strategy to optimize and expand its services portfolio. In connection with this acquisition, the Company recorded \$133 million of goodwill, which includes the value of Fulcrum's workforce, all of which was allocated to the Company's Technical Solutions segment, as well as \$49 million of intangible assets related to existing contract backlog. For the year ended December 31, 2019, the Company recorded a decrease in goodwill of \$1 million, primarily driven by the finalization of a net working capital adjustment and the fair value calculations for certain assets and liabilities. See Note 11: Goodwill and Other Intangible Assets. The assets, liabilities, and results of operations of Fulcrum are not material to the Company's consolidated financial position, results of operations, or cash flows.

The Company funded each of these acquisitions using cash on hand, issuance of commercial paper, or borrowings on its revolving credit facility. The acquisition costs incurred in connection with these acquisitions were not material. The operating results of these businesses have been included in the Company's consolidated results as of the respective closing dates of the acquisitions. In allocating the purchase prices of these businesses, the Company considered the estimated fair value of net tangible and intangible assets acquired, with any excess purchase price recorded as goodwill. The total amount of goodwill resulting from these acquisitions is expected to be amortizable for tax purposes. These acquisitions are not material either individually or in the aggregate, and pro forma revenues and results of operations have therefore not been provided.

## 5. STOCKHOLDERS' EQUITY

*Treasury Stock* - In November 2019, the Company's board of directors authorized an increase in the Company's stock repurchase program from \$2.2 billion to \$3.2 billion and an extension of the term of the program to October 31, 2024. Repurchases are made from time to time at management's discretion in accordance with applicable federal securities laws. For the six months ended June 30, 2020, the Company repurchased 390,904 shares at an aggregate cost of \$84 million. For the six months ended June 30, 2019, the Company repurchased 429,940 shares at an aggregate cost of \$88 million. For the six months ended June 30, 2019, the Company also settled for cash \$48 million of shares repurchased in the prior year. The cost of purchased shares is recorded as treasury stock in the unaudited condensed consolidated statements of financial position.

*Dividends* - The Company declared cash dividends per share of \$1.03 and \$0.86 for the three months ended June 30, 2020 and 2019, respectively. The Company declared cash dividends per share of \$2.06 and \$1.72 for the six months ended June 30, 2020 and 2019, respectively. The Company paid cash dividends totaling \$84 million and \$72 million for the six months ended June 30, 2020 and 2019, respectively.

*Accumulated Other Comprehensive Loss* - Other comprehensive income (loss) refers to gains and losses recorded as an element of stockholders' equity but excluded from net earnings. The accumulated other comprehensive loss as of June 30, 2020, was comprised of unamortized benefit plan costs of \$1,373 million and other comprehensive loss items of \$3 million. The accumulated other comprehensive loss as of December 31, 2019, was comprised of unamortized benefit plan costs of \$1,407 million and other comprehensive loss items of \$2 million.

The changes in accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2020 and 2019, were as follows:

(\$ in millions)	Benefit Plans	Other	Total
Balance as of March 31, 2019	\$ (1,264)	\$ (5)	\$ (1,269)
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service credit <sup>1</sup>	(2)	—	(2)
Amortization of net actuarial loss <sup>1</sup>	26	—	26
Tax expense for items of other comprehensive income	(6)	—	(6)
Net current period other comprehensive income	18	—	18
Balance as of June 30, 2019	\$ (1,246)	\$ (5)	\$ (1,251)
Balance as of March 31, 2020	(1,390)	(4)	(1,394)
Other comprehensive income (loss) before reclassifications	—	1	1
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service credit <sup>1</sup>	(3)	—	(3)
Amortization of net actuarial loss <sup>1</sup>	26	—	26
Tax expense for items of other comprehensive income	(6)	—	(6)
Net current period other comprehensive income	17	1	18
<b>Balance as of June 30, 2020</b>	<b>\$ (1,373)</b>	<b>\$ (3)</b>	<b>\$ (1,376)</b>

(\$ in millions)	Benefit Plans	Other	Total
Balance as of December 31, 2018	\$ (1,283)	\$ (5)	\$ (1,288)
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service credit <sup>1</sup>	(2)	—	(2)
Amortization of net actuarial loss <sup>1</sup>	51	—	51
Tax expense for items of other comprehensive income	(12)	—	(12)
Net current period other comprehensive income	37	—	37
Balance as of June 30, 2019	\$ (1,246)	\$ (5)	\$ (1,251)
Balance as of December 31, 2019	\$ (1,407)	\$ (2)	\$ (1,409)
Other comprehensive income (loss) before reclassifications	—	(1)	(1)
Amounts reclassified from accumulated other comprehensive loss			
Amortization of prior service credit <sup>1</sup>	(5)	—	(5)
Amortization of net actuarial loss <sup>1</sup>	51	—	51
Tax expense for items of other comprehensive income	(12)	—	(12)
Net current period other comprehensive income (loss)	34	(1)	33
<b>Balance as of June 30, 2020</b>	<b>\$ (1,373)</b>	<b>\$ (3)</b>	<b>\$ (1,376)</b>

<sup>1</sup> These accumulated comprehensive loss components are included in the computation of net periodic benefit cost. See Note 17: Employee Pension and Other Postretirement Benefits. The tax benefit associated with amounts reclassified from accumulated other comprehensive loss for each of the three months ended June 30, 2020 and 2019, was \$6 million. The tax benefit associated with amounts reclassified from accumulated other comprehensive loss for each of the six months ended June 30, 2020 and 2019, was \$12 million.

## 6. EARNINGS PER SHARE

Basic and diluted earnings per common share were calculated as follows:

(in millions, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Net earnings	\$ 53	\$ 128	\$ 225	\$ 246
Weighted-average common shares outstanding	40.7	41.7	40.6	41.6
Net dilutive effect of stock awards	—	—	—	—
Dilutive weighted-average common shares outstanding	40.7	41.7	40.6	41.6
Earnings per share - basic	\$ 1.30	\$ 3.07	\$ 5.54	\$ 5.91
Earnings per share - diluted	\$ 1.30	\$ 3.07	\$ 5.54	\$ 5.91

Under the treasury stock method, the Company has excluded from the diluted share amounts presented above the effects of 0.3 million Restricted Performance Stock Rights ("RPSRs") for the three and six months ended June 30, 2020 and 2019.

## 7. REVENUE

The following is a description of principal activities from which the Company generates its revenues. For more detailed information regarding reportable segments, see Note 8: Segment Information. For more detailed information regarding the Company's significant accounting policy for revenue, see Note 2: Basis of Presentation.

### *U.S. Government Contracts*

The Ingalls and Newport News segments generate revenue primarily from performance under multi-year contracts with the U.S. Government, generally the U.S. Navy and U.S. Coast Guard, or prime contractors to contracts with the U.S. Government, relating to the advance planning, design, construction, repair, maintenance, refueling, overhaul, or inactivation of nuclear-powered ships and non-nuclear ships. The period over which the Company performs may extend past five years. The Technical Solutions segment also generates the majority of its revenue from contracts with the U.S. Government, including U.S. Government agencies. The Company generally invoices and receives related payments based upon performance progress no less frequently than monthly.

*Shipbuilding* - For most of the Company's shipbuilding contracts, the customer contracts with the Company to provide a comprehensive service of designing, procuring long-lead-time materials, manufacturing, and integrating complex equipment and technologies into a single ship or project, often resulting in a single performance obligation. Contract modifications to account for changes in specifications and requirements are recognized when approved by the customer. In the majority of circumstances, modifications do not result in additional performance obligations that are distinct from the existing performance obligations in the contract and the effects of the modifications are recognized as an adjustment to revenue on a cumulative catch-up basis. Alternatively, in instances where the performance obligations in the modifications are deemed distinct, contract modifications are accounted for prospectively.

The Company considers incentive and award fees to be variable consideration and includes in the transaction price at inception the consideration to which the Company expects to be entitled under the terms and conditions of the contract, generally estimated using a most likely amount approach. Transaction price is limited to the extent of funding allotted by the customer and available for performance, and estimated revenues represent those amounts for which the Company believes a significant reversal of revenue is not probable.

The Company recognizes revenues related to shipbuilding contracts as it satisfies the related performance obligations over time using a cost-to-cost input method to measure performance progress, which best reflects the transfer of control to the customer.

*Services* - The Technical Solutions segment generates revenue primarily under U.S. Government contracts from the

provision of fleet support and MDIS services. Contracts generally are structured using either an Indefinite Delivery/Indefinite Quantity ("IDIQ") vehicle, under which orders are issued, or a standalone contract. Contracts may be fixed-price or cost-type, include variable consideration such as incentives and awards, and structured as task orders under an IDIQ contract vehicle or requirements contract vehicle. In either case, the Company generally performs over the course of a short-duration period and may continue to perform upon exercise of related period of performance options that are also short in duration, generally one year. The Company's performance obligations vary in nature and may be stand-ready, in which case the Company responds to the customer's needs on the basis of its demand, a recurring service, typically recurring maintenance services, or a single performance obligation that does not comprise a series of distinct services.

In determining transaction price, the Company considers incentives and other contingencies to be variable consideration and includes in the initial transaction price the consideration to which the Company expects to be entitled under the terms and conditions of the contract, generally estimated using a most likely amount approach. Transaction price is limited to the extent of funding allotted by the customer and available for performance, and estimated revenues represent those amounts for which the Company believes a significant reversal of revenue is not probable. Where a series of distinct services has been identified, the Company generally allocates variable consideration to distinct time increments of service.

The Company generally recognizes revenue as it satisfies the related performance obligations over time using a cost-to-cost input method to measure performance progress, because, even where the Company has identified a series of services, its cost incurrence pattern generally is not ratable given the complex nature of the services the Company provides. Invoices are issued and related payments are received, on the basis of performance progress, no less frequently than monthly. In addition, many of the Company's U.S. Government services contracts are time and material arrangements. As a result, the Company often utilizes the practical expedient allowing the recognition of revenue in the amount the Company invoices, which corresponds with the value provided to the customer and to which the Company is entitled to payment for performance to date.

#### *Non-U.S. Government Contracts*

Revenues generated under commercial and state and local government agency contracts are primarily derived from the provision of nuclear and environmental and oil and gas services. Non-U.S. Government contracts typically are one or two years in duration.

In determining transaction price, the Company considers incentives and other contingencies to be variable consideration and includes in the initial transaction price the consideration to which the Company expects to be entitled under the terms and conditions of the contract, generally estimated using a most likely amount approach. In the context of variable consideration, the Company limits the transaction price to amounts for which the Company believes a significant reversal of revenue is not probable. Such amounts may relate to transaction price in excess of funding, a lack of history with the customer, a lack of history with the goods or services being provided, or other items.

Revenue generally is recognized over time given the terms and conditions of the related contracts. The Company generally utilizes a cost-to-cost input method to measure performance progress, which best depicts the transfer of control to the customer. The Company's non-U.S. Government contract portfolio is comprised of a large number of time and material arrangements. As a result, the Company often utilizes the practical expedient allowing the recognition of revenue in the amount the Company invoices, which corresponds with the value provided to the customer and to which the Company is entitled to payment for performance to date.

#### **Disaggregation of Revenue**

The following tables present revenues on a disaggregated basis, in a manner that reconciles with the Company's reportable segment disclosures, for the following categories: product versus service type, customer type, contract type, and major program. Certain prior year amounts have been reclassified. See Note 8: Segment Information. The Company believes that this level of disaggregation provides investors with information to evaluate the Company's financial performance and provides the Company with information to make capital allocation decisions in the most appropriate manner.

Three Months Ended June 30, 2020					
(\$ in millions)	Ingalls	Newport News	Technical Solutions	Intersegment Eliminations	Total
<b>Revenue Type</b>					
Product sales	\$ 564	\$ 826	\$ 30	\$ —	\$ 1,420
Service revenues	57	294	256	—	607
Intersegment	1	2	34	(37)	—
Sales and service revenues	<u>\$ 622</u>	<u>\$ 1,122</u>	<u>\$ 320</u>	<u>\$ (37)</u>	<u>\$ 2,027</u>
<b>Customer Type</b>					
Federal	\$ 621	\$ 1,119	\$ 223	\$ —	\$ 1,963
Commercial	—	1	62	—	63
State and local government agencies	—	—	1	—	1
Intersegment	1	2	34	(37)	—
Sales and service revenues	<u>\$ 622</u>	<u>\$ 1,122</u>	<u>\$ 320</u>	<u>\$ (37)</u>	<u>\$ 2,027</u>
<b>Contract Type</b>					
Firm fixed-price	\$ 16	\$ 1	\$ 62	\$ —	\$ 79
Fixed-price incentive	535	493	—	—	1,028
Cost-type	70	626	113	—	809
Time and materials	—	—	111	—	111
Intersegment	1	2	34	(37)	—
Sales and service revenues	<u>\$ 622</u>	<u>\$ 1,122</u>	<u>\$ 320</u>	<u>\$ (37)</u>	<u>\$ 2,027</u>

Three Months Ended June 30, 2019					
(\$ in millions)	Ingalls	Newport News	Technical Solutions	Intersegment Eliminations	Total
<b>Revenue Type</b>					
Product sales	\$ 556	\$ 963	\$ 1	\$ —	\$ 1,520
Service revenues	65	313	290	—	668
Intersegment	1	3	30	(34)	—
Sales and service revenues	<u>\$ 622</u>	<u>\$ 1,279</u>	<u>\$ 321</u>	<u>\$ (34)</u>	<u>\$ 2,188</u>
<b>Customer Type</b>					
Federal	\$ 621	\$ 1,265	\$ 231	\$ —	\$ 2,117
Commercial	—	11	60	—	71
Intersegment	1	3	30	(34)	—
Sales and service revenues	<u>\$ 622</u>	<u>\$ 1,279</u>	<u>\$ 321</u>	<u>\$ (34)</u>	<u>\$ 2,188</u>
<b>Contract Type</b>					
Firm fixed-price	\$ 23	\$ 1	\$ 57	\$ —	\$ 81
Fixed-price incentive	490	560	1	—	1,051
Cost-type	108	715	127	—	950
Time and materials	—	—	106	—	106
Intersegment	1	3	30	(34)	—
Sales and service revenues	<u>\$ 622</u>	<u>\$ 1,279</u>	<u>\$ 321</u>	<u>\$ (34)</u>	<u>\$ 2,188</u>

**Six Months Ended June 30, 2020**

(\$ in millions)	Ingalls	Newport News	Technical Solutions	Intersegment Eliminations	Total
<b>Revenue Type</b>					
Product sales	\$ 1,142	\$ 1,872	\$ 30	\$ —	\$ 3,044
Service revenues	107	587	552	—	1,246
Intersegment	2	4	55	(61)	—
Sales and service revenues	<u>\$ 1,251</u>	<u>\$ 2,463</u>	<u>\$ 637</u>	<u>\$ (61)</u>	<u>\$ 4,290</u>
<b>Customer Type</b>					
Federal	\$ 1,249	\$ 2,458	\$ 451	\$ —	\$ 4,158
Commercial	—	1	130	—	131
State and local government agencies	—	—	1	—	1
Intersegment	2	4	55	(61)	—
Sales and service revenues	<u>\$ 1,251</u>	<u>\$ 2,463</u>	<u>\$ 637</u>	<u>\$ (61)</u>	<u>\$ 4,290</u>
<b>Contract Type</b>					
Firm fixed-price	\$ 31	\$ 3	\$ 121	\$ —	\$ 155
Fixed-price incentive	1,058	1,131	—	—	2,189
Cost-type	160	1,325	246	—	1,731
Time and materials	—	—	215	—	215
Intersegment	2	4	55	(61)	—
Sales and service revenues	<u>\$ 1,251</u>	<u>\$ 2,463</u>	<u>\$ 637</u>	<u>\$ (61)</u>	<u>\$ 4,290</u>

**Six Months Ended June 30, 2019**

(\$ in millions)	Ingalls	Newport News	Technical Solutions	Intersegment Eliminations	Total
<b>Revenue Type</b>					
Product sales	\$ 1,094	\$ 1,915	\$ 1	\$ —	\$ 3,010
Service revenues	111	640	507	—	1,258
Intersegment	1	3	53	(57)	—
Sales and service revenues	<u>\$ 1,206</u>	<u>\$ 2,558</u>	<u>\$ 561</u>	<u>\$ (57)</u>	<u>\$ 4,268</u>
<b>Customer Type</b>					
Federal	\$ 1,205	\$ 2,530	\$ 396	\$ —	\$ 4,131
Commercial	—	25	112	—	137
Intersegment	1	3	53	(57)	—
Sales and service revenues	<u>\$ 1,206</u>	<u>\$ 2,558</u>	<u>\$ 561</u>	<u>\$ (57)</u>	<u>\$ 4,268</u>
<b>Contract Type</b>					
Firm fixed-price	\$ 40	\$ 4	\$ 92	\$ —	\$ 136
Fixed-price incentive	968	1,013	1	—	1,982
Cost-type	197	1,538	226	—	1,961
Time and materials	—	—	189	—	189
Intersegment	1	3	53	(57)	—
Sales and service revenues	<u>\$ 1,206</u>	<u>\$ 2,558</u>	<u>\$ 561</u>	<u>\$ (57)</u>	<u>\$ 4,268</u>

(\$ in millions)	Three Months Ended June 30	Three Months Ended June 30	Six Months Ended June 30	Six Months Ended June 30
	2020	2019	2020	2019
<b>Major Programs</b>				
Amphibious assault ships	\$ 328	\$ 325	\$ 675	\$ 622
Surface combatants and coast guard cutters	295	295	574	581
Other	(1)	2	2	3
Total Ingalls	622	622	1,251	1,206
Aircraft carriers	656	747	1,354	1,460
Submarines	286	363	741	731
Other	180	169	368	367
Total Newport News	1,122	1,279	2,463	2,558
Government and energy services	260	265	513	456
Oil and gas services	60	56	124	105
Total Technical Solutions	320	321	637	561
Intersegment eliminations	(37)	(34)	(61)	(57)
Sales and service revenues	\$ 2,027	\$ 2,188	\$ 4,290	\$ 4,268

As of June 30, 2020, the Company had \$46.1 billion of remaining performance obligations. The Company expects to recognize approximately 30% of its remaining performance obligations as revenue through 2021, an additional 25% through 2023, and the balance thereafter.

#### *Cumulative Catch-up Adjustments*

For the three months ended June 30, 2020, net cumulative catch-up adjustments decreased operating income and decreased diluted earnings per share by \$111 million and \$2.15, respectively. For the three months ended June 30, 2019, net cumulative catch-up adjustments increased operating income and increased diluted earnings per share by \$19 million and \$0.35, respectively. For the six months ended June 30, 2020, net cumulative catch-up adjustments decreased operating income and decreased diluted earnings per share by \$79 million and \$1.53, respectively. For the six months ended June 30, 2019, net cumulative catch-up adjustments increased operating income and increased diluted earnings per share by \$13 million and \$0.24, respectively.

Cumulative catch-up adjustments for the three and six months ended June 30, 2020, included unfavorable adjustments of \$111 million and \$120 million, respectively, relating to Block IV of the *Virginia* class (SSN 774) submarine program at the Company's Newport News segment, which decreased diluted earnings per share by \$2.15 and \$2.34, respectively. While other unfavorable cumulative catch-up adjustments for the three and six months ended June 30, 2020, were not individually material, cost estimates for discrete delay and disruption from COVID-19 Events drove \$61 million of unfavorable cumulative catch-up adjustments across our contracts, including \$16 million relating to Block IV of the *Virginia* class (SSN 774) submarine program, which is included in the \$111 million and \$120 million unfavorable adjustments discussed above.

Cumulative catch-up adjustments for the three months ended June 30, 2020, included a favorable adjustment of \$25 million on a contract at the Company's Ingalls segment, which increased diluted earnings per share by \$0.48. For the six months ended June 30, 2020, no individual favorable adjustment was material to the Company's unaudited condensed consolidated statements of operations and comprehensive income. No individual adjustment was material to the Company's unaudited condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2019.

#### **Contract Balances**

Contract balances include accounts receivable, contract assets, and contract liabilities from contracts with customers. Accounts receivable represent an unconditional right to consideration and include amounts billed and currently due from customers. Contract assets primarily relate to the Company's rights to consideration for work

completed but not billed as of the reporting date when the right to payment is not just subject to the passage of time. Fixed-price contracts are generally billed to the customer using either progress payments, whereby amounts are billed monthly as costs are incurred or work is completed, or performance based payments, which are based upon the achievement of specific, measurable events or accomplishments defined and valued at contract inception. Cost-type contracts are typically billed to the customer on a monthly or semi-monthly basis. Contract liabilities relate to advance payments, billings in excess of revenues, and deferred revenue amounts.

The Company reports contract balances in a net contract asset or contract liability position on a contract-by-contract basis at the end of each reporting period. The Company's net contract assets decreased \$55 million from December 31, 2019, to June 30, 2020, primarily resulting from an increase in contract liabilities due to unfavorable cumulative catch-up adjustments and billings on certain U.S. Navy contracts. For the three months ended June 30, 2020, the Company recognized no revenue related to its contract liabilities as of December 31, 2019. For the six months ended June 30, 2020, the Company recognized revenue of \$256 million related to its contract liabilities as of December 31, 2019. For the three and six months ended June 30, 2019, the Company recognized revenue of \$27 million and \$244 million, respectively, related to its contract liabilities as of December 31, 2018.

## 8. SEGMENT INFORMATION

The Company is organized into three reportable segments: Ingalls, Newport News, and Technical Solutions, consistent with how management makes operating decisions and assesses performance.

In January 2020, the Company realigned its segments to optimize its operating structure. As a result of this realignment, the Company's HII Mechanical business was transferred from the Technical Solutions segment to the Newport News segment to better align HII Mechanical's work primarily supporting Newport News. The Company has reflected the 2020 realignment in prior financial reporting periods on an as-if basis, which has resulted in the transfer of revenue, operating income, assets, and liabilities between the Technical Solutions and Newport News segments. This realignment did not impact the Company's previously reported consolidated financial position, results of operations, or cash flows. See Note 7: Revenue.

The following table presents segment results for the three and six months ended June 30, 2020 and 2019:

(\$ in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
<b>Sales and Service Revenues</b>				
Ingalls	\$ 622	\$ 622	\$ 1,251	\$ 1,206
Newport News	1,122	1,279	2,463	2,558
Technical Solutions	320	321	637	561
Intersegment eliminations	(37)	(34)	(61)	(57)
Sales and service revenues	\$ 2,027	\$ 2,188	\$ 4,290	\$ 4,268
<b>Operating Income</b>				
Ingalls	\$ 55	\$ 69	\$ 123	\$ 115
Newport News	(69)	71	26	152
Technical Solutions	9	(2)	2	—
Segment operating income (loss)	(5)	138	151	267
<b>Non-segment factors affecting operating income (loss)</b>				
Operating FAS/CAS Adjustment	63	37	126	71
Non-current state income taxes	(1)	—	(5)	(2)
Operating income	\$ 57	\$ 175	\$ 272	\$ 336

*Operating FAS/CAS Adjustment* - The Operating FAS/CAS Adjustment represents the difference between the service cost component of our pension and other postretirement expense determined in accordance with GAAP ("FAS") and our pension and other postretirement expense under CAS.



The following table presents the Company's assets by segment:

(\$ in millions)	June 30, 2020	December 31, 2019
<b>Assets</b>		
Ingalls	\$ 1,748	\$ 1,618
Newport News	4,060	3,886
Technical Solutions	1,408	1,022
Corporate	1,017	505
<b>Total assets</b>	<b>\$ 8,233</b>	<b>\$ 7,031</b>

## 9. INVENTORIED COSTS, NET

Inventoried costs were comprised of the following:

(\$ in millions)	June 30, 2020	December 31, 2019
Production costs of contracts in process <sup>1</sup>	\$ 37	\$ 30
Raw material inventory	123	106
<b>Total inventoried costs, net</b>	<b>\$ 160</b>	<b>\$ 136</b>

<sup>1</sup> Includes amounts capitalized pursuant to applicable provisions of the FAR and CAS.

## 10. ASSETS AND LIABILITIES HELD FOR SALE

As of June 30, 2020, the Company determined that two asset groups within its Technical Solutions segment met the criteria to be classified as held for sale. It is the Company's intention to complete the sale of these assets within 12 months following the initial classification as assets held for sale. As a result, during the fourth quarter of 2019, the Company recorded an impairment charge of \$6 million within other, net in the consolidated statements of operations and comprehensive income. The following table summarizes the assets and liabilities classified as held for sale:

(\$ in millions)	June 30, 2020	December 31, 2019
Current assets	\$ 88	\$ 74
Property, plant, and equipment	17	2
Other intangible assets, net	2	2
Goodwill	35	—
Other non-current assets	37	23
Valuation allowance	(6)	(6)
<b>Total assets held for sale</b>	<b>\$ 173</b>	<b>\$ 95</b>
Current liabilities	67	62
Long-term liabilities	26	15
<b>Total liabilities held for sale</b>	<b>\$ 93</b>	<b>\$ 77</b>

## 11. GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

HII performs impairment tests for goodwill as of November 30 of each year and between annual impairment tests if an event occurs or circumstances change that would more likely than not reduce the fair values of the Company's reporting units below their carrying values.

Accumulated goodwill impairment losses as of each of June 30, 2020, and December 31, 2019, were \$2,906 million. The accumulated goodwill impairment losses for Ingalls as of each of June 30, 2020, and December 31, 2019, were \$1,568 million. The accumulated goodwill impairment losses for Newport News as of each of June 30, 2020, and December 31, 2019, were \$1,187 million. The accumulated goodwill impairment losses for Technical Solutions as of each of June 30, 2020, and December 31, 2019, were \$151 million.

For the six months ended June 30, 2020, the carrying amounts of goodwill changed as follows:

(\$ in millions)	Ingalls	Newport News	Technical Solutions	Total
Balance as of December 31, 2019	\$ 175	\$ 721	\$ 477	\$ 1,373
Acquisitions	—	—	310	310
Adjustments	—	—	(107)	(107)
<b>Balance as of June 30, 2020</b>	<b>\$ 175</b>	<b>\$ 721</b>	<b>\$ 680</b>	<b>\$ 1,576</b>

As of June 30, 2020, the Company recorded goodwill adjustments of \$72 million relating to the acquisition of Hydroid, primarily related to allocations to intangible assets. As of June 30, 2020, the Company allocated \$35 million of goodwill at its Technical Solutions segment to an asset group that was classified as held for sale.

### Other Intangible Assets

The Company's purchased intangible assets are amortized on a straight-line basis or a method based on the pattern of benefits over their estimated useful lives. Net intangible assets consist primarily of nuclear-powered aircraft carrier and submarine program intangible assets, with an aggregate weighted-average useful life of 40 years based on the long life cycle of the related programs. Aggregate amortization expense was \$15 million and \$12 million for the three months ended June 30, 2020 and 2019, respectively. Aggregate amortization expense was \$26 million and \$23 million for the six months ended June 30, 2020 and 2019, respectively.

In connection with the Hydroid purchase in 2020, the Company recorded \$76 million of intangible assets pertaining to existing contract backlog, customer relationships, and technology, to be amortized using the pattern of benefits method over a weighted-average life of nine years.

In connection with the Fulcrum purchase in 2019, the Company recorded \$49 million of intangible assets pertaining to existing contract backlog and customer relationships, to be amortized using the pattern of benefits method over a weighted-average life of seven years.

The Company expects amortization expense for purchased intangible assets of approximately \$55 million in 2020, \$51 million in 2021, \$45 million in 2022, \$35 million in 2023, and \$25 million in 2024.

## 12. INCOME TAXES

The Company's earnings are primarily domestic, and its effective income tax rates on earnings from operations for the three months ended June 30, 2020 and 2019, were 18.5% and 22.0%, respectively. For the six months ended June 30, 2020 and 2019, the Company's effective income tax rates on its earnings from operations were 19.9% and 21.4%, respectively. The lower effective tax rates for the three and six months ended June 30, 2020, were primarily attributable to research and development tax credits for prior periods.

For the three and six months ended June 30, 2020, the Company's effective tax rates differed from the federal statutory rate primarily as a result of the research and development tax credits for prior periods. For the three months ended June 30, 2019, the Company's effective tax rate differed from the federal statutory rate primarily as a result of an unfavorable adjustment to claims for research and development tax credits for prior periods. For the six months ended June 30, 2019, the Company's effective tax rate did not differ materially from the federal statutory corporate income tax rate of 21%.

On March 27, 2020, the CARES Act was signed into law. The CARES Act includes certain changes to U.S. federal tax law that impact corporations. The Company's initial analysis of the tax law changes included in the CARES Act indicates that the Act will not have a material impact on the Company's effective income tax rate.

The Company's unrecognized tax benefits increased by \$2 million during the three months ended June 30, 2020. As of June 30, 2020, the estimated amounts of the Company's unrecognized tax benefits, excluding interest and penalties, were liabilities of \$40 million. Assuming a sustainment of these tax positions, the reversal of \$30 million of the accrued amounts would favorably affect the Company's effective federal income tax rate in future periods.

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense. For the three months ended June 30, 2020, interest resulting from the unrecognized tax benefits noted above increased income tax expense less than \$1 million. Non-current state income taxes include deferred state income taxes, which reflect the change in deferred state tax assets and liabilities, and the tax expense or benefit associated with changes in unrecognized tax benefits in the relevant period. These amounts are recorded within operating income. Current period state income tax expense is charged to contract costs and included in cost of sales and service revenues in segment operating income.

### 13. DEBT

Long-term debt consisted of the following:

(\$ in millions)	June 30, 2020	December 31, 2019
Senior notes due November 15, 2025, 5.000%	600	600
Senior notes due December 1, 2027, 3.483%	600	600
Senior notes due May 1, 2025, 3.844%	500	—
Senior notes due May 1, 2030, 4.200%	500	—
Mississippi economic development revenue bonds due May 1, 2024, 7.81%	84	84
Gulf opportunity zone industrial development revenue bonds due December 1, 2028, 4.55%	21	21
Less unamortized debt issuance costs	(29)	(19)
<b>Total long-term debt</b>	<b>\$ 2,276</b>	<b>\$ 1,286</b>

*Credit Facility* - The Company's credit facility with third-party lenders (the "Credit Facility") includes a revolving credit facility of \$1,250 million, which may be drawn upon during a period of five years from November 22, 2017. The revolving credit facility includes a letter of credit subfacility of \$500 million.

The Credit Facility contains customary affirmative and negative covenants, as well as a financial covenant based on a maximum total leverage ratio. Each of the Company's existing and future material wholly owned domestic subsidiaries, except those that are specifically designated as unrestricted subsidiaries, are and will be guarantors under the Credit Facility. See Note 19: Subsidiary Guarantors.

As of June 30, 2020, the Company had \$16 million in issued but undrawn letters of credit and \$1,234 million unutilized under the Credit Facility. The Company had unamortized debt issuance costs associated with its credit facilities of \$7 million as of each of June 30, 2020, and December 31, 2019.

In the second quarter of 2020, the Company entered into a 364-day revolving credit agreement (the "364-Day Facility") with third-party lenders. The 364-Day Facility includes a revolving credit facility of \$500 million, which may be drawn upon during a period of 364 days from April 3, 2020. The revolving credit facility has a variable interest rate on outstanding borrowings based on the London Interbank Offered Rate ("LIBOR") plus a spread based upon the Company's credit rating, which may vary between 2.000% and 2.375%. The revolving credit facility also has a commitment fee rate of 0.50%.

The 364-Day Facility contains customary affirmative and negative covenants, as well as a financial covenant based on a maximum total leverage ratio. Each of the Company's existing and future material wholly owned domestic subsidiaries, except those that are specifically designated as unrestricted subsidiaries, are and will be guarantors under the 364-Day Facility.

Under the Company's unsecured commercial paper program, the Company may issue up to \$1 billion of unsecured commercial paper notes.

*Senior Notes* - In the second quarter of 2020, the Company issued \$500 million aggregate principal amount of unregistered 3.844% senior notes due 2025 and \$500 million aggregate principal amount of unregistered 4.200% senior notes due 2030, both with registration rights. The net proceeds are intended to be used for general corporate purposes, which may include debt repayments and working capital. Interest on these senior notes is payable semiannually.

The terms of the senior notes limit the Company's ability and the ability of certain of its subsidiaries to create liens, enter into sale and leaseback transactions, sell assets, and effect consolidations or mergers.

The Company had unamortized debt issuance costs associated with its senior notes of \$22 million and \$12 million as of June 30, 2020, and December 31, 2019, respectively.

The Company's debt arrangements contain customary affirmative and negative covenants. The Company was in compliance with all debt covenants during the six months ended June 30, 2020.

The estimated fair values of the Company's total long-term debt as of June 30, 2020, and December 31, 2019, were \$2,492 million and \$1,379 million, respectively. The fair values of the Company's long-term debt were calculated based on recent trades of the Company's debt instruments in inactive markets, which fall within Level 2 under the fair value hierarchy.

As of June 30, 2020, the aggregate amounts of principal payments due on long-term debt within the next five years consisted of \$84 million due in 2024 and \$500 million due in 2025.

#### **14. INVESTIGATIONS, CLAIMS, AND LITIGATION**

The Company is involved in legal proceedings before various courts and administrative agencies, and is periodically subject to government examinations, inquiries and investigations. Pursuant to FASB Accounting Standards Codification 450 *Contingencies*, the Company has accrued for losses associated with investigations, claims, and litigation when, and to the extent that, loss amounts related to the investigations, claims, and litigation are probable and can be reasonably estimated. The actual losses that might be incurred to resolve such investigations, claims, and litigation may be higher or lower than the amounts accrued. For matters where a material loss is probable or reasonably possible and the amount of loss cannot be reasonably estimated, but the Company is able to reasonably estimate a range of possible losses, the Company will disclose such estimated range in these notes. This estimated range is based on information currently available to the Company and involves elements of judgment and significant uncertainties. Any estimated range of possible loss does not represent the Company's maximum possible loss exposure. For matters as to which the Company is not able to reasonably estimate a possible loss or range of loss, the Company will indicate the reasons why it is unable to estimate the possible loss or range of loss. For matters not specifically described in these notes, the Company does not believe, based on information currently available to it, that it is reasonably possible that the liabilities, if any, arising from such investigations, claims, and litigation will have a material effect on its consolidated financial position, results of operations, or cash flows. The Company has, in certain cases, provided disclosure regarding certain matters for which the Company believes at this time that the likelihood of material loss is remote.

*False Claims Act Complaint* - In 2016, the Company was made aware that it is a defendant in a *qui tam* False Claims Act lawsuit pending in the U.S. District Court for the Middle District of Florida related to the Company's purchases of allegedly non-conforming parts from a supplier for use in connection with U.S. Government contracts. In August 2019, the Department of Justice ("DoJ") declined to intervene in the lawsuit, and the lawsuit was unsealed. Depending on the outcome of the lawsuit, the Company could be subject to civil penalties, damages, and/or suspension or debarment from future U.S. Government contracts, which could have a material adverse effect on its consolidated financial position, results of operations, or cash flows. The Company filed a motion to dismiss the complaint and has not had an opportunity to engage in any discovery related to the issues set forth in the complaint. At this early stage, the Company is unable to estimate an amount or range of reasonably possible loss or to express an opinion regarding the ultimate outcome.

*U.S. Government Investigations and Claims* - Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of the Company, and the results of such investigations may lead to administrative, civil, or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments or compensatory, treble, or other damages. U.S. Government regulations provide that certain findings against a contractor may also lead to suspension or debarment from future U.S. Government contracts or the loss of export

privileges. Any suspension or debarment would have a material effect on the Company because of its reliance on government contracts.

*Asbestos Related Claims* - HII and its predecessors-in-interest are defendants in a longstanding series of cases that have been and continue to be filed in various jurisdictions around the country, wherein former and current employees and various third parties allege exposure to asbestos containing materials while on or associated with HII premises or while working on vessels constructed or repaired by HII. The cases allege various injuries, including those associated with pleural plaque disease, asbestosis, cancer, mesothelioma, and other alleged asbestos related conditions. In some cases, several of HII's former executive officers are also named as defendants. In some instances, partial or full insurance coverage is available to the Company for its liability and that of its former executive officers. The costs to resolve cases during the six months ended June 30, 2020 and 2019, were immaterial individually and in the aggregate. The Company's estimate of asbestos-related liabilities is subject to uncertainty because liabilities are influenced by numerous variables that are inherently difficult to predict. Key variables include the number and type of new claims, the litigation process from jurisdiction to jurisdiction and from case to case, reforms made by state and federal courts, and the passage of state or federal tort reform legislation. Although the Company believes the ultimate resolution of current cases will not have a material effect on its consolidated financial position, results of operations, or cash flows, it cannot predict what new or revised claims or litigation might be asserted or what information might come to light and can, therefore, give no assurances regarding the ultimate outcome of asbestos related litigation.

*Other Litigation* - In March 2019, a new dry dock being transported for delivery to Ingalls by a heavy lift ship struck an Ingalls work barge, which in turn was pushed into *Delbert D. Black* (DDG 119) causing damage to *Delbert D. Black* (DDG 119), the work barge, and the new dry dock. At the time of the incident, responsibility for the new dry dock remained with the builder and the transport company. Repair work on *Delbert D. Black* (DDG 119) was completed at U.S. Navy direction. The Company is working with the U.S. Navy to ascertain whether third parties will pay for the repairs to *Delbert D. Black* (DDG 119) or whether the repairs will be paid under the builder's risk insurance included in the *Delbert D. Black* (DDG 119) contract. Claims were tendered to the Company's insurers, and the Company has received all outstanding claim proceeds. In April 2019, the Company filed suit in the U.S. District Court for the Southern District of Mississippi seeking, among other relief, damages from negligent third parties. Based on information currently available, management believes it will collect sufficient funds from one or more third parties to compensate for the resulting direct and consequential damages, but failure to collect sufficient funds or the length of time required to collect such funds could result in a material effect on the Company's financial position, results of operations, or cash flows.

The Company and its predecessor-in-interest have been in litigation with the Bolivarian Republic of Venezuela (the "Republic") since 2002 over a contract for the repair, refurbishment, and modernization at Ingalls of two foreign-built frigates. The case proceeded towards arbitration, then appeared to settle favorably, but the settlement was overturned in court and the matter returned to litigation. In March 2014, the Company filed an arbitral statement of claim asserting breaches of the contract. In July 2014, the Republic filed a statement of defense in the arbitration denying all the Company's allegations and a counterclaim alleging late redelivery of the frigates, unfinished work, and breach of warranty. In February 2018, the arbitral tribunal awarded the Company approximately \$151 million on its claims and awarded the Republic approximately \$22 million on its counterclaims. The Company is seeking to enforce and execute upon the award in multiple jurisdictions. No assurances can be provided regarding the ultimate resolution of this matter.

The Company is party to various other claims, legal proceedings and investigations that arise in the ordinary course of business, including U.S. Government investigations that could result in administrative, civil, or criminal proceedings involving the Company. The Company is a contractor with the U.S. Government, and such proceedings can therefore include False Claims Act allegations against the Company. Although the Company believes that the resolution of these other claims, legal proceedings and investigations will not have a material effect on its consolidated financial position, results of operations, or cash flows, the Company cannot predict what new or revised claims or litigation might be asserted or what information might come to light and can, therefore, give no assurances regarding the ultimate outcome of these matters.

## 15. LEASES

The Company leases certain land, warehouses, office space, and production, office, and technology equipment, among other items. Most equipment is leased on a monthly basis. Many land, warehouse, and office space leases include renewal terms that can extend the lease term. The exercise of lease renewal options is at the Company's sole discretion. The depreciable life of assets and leasehold improvements are generally limited by the expected lease term. The Company's lease agreements do not generally contain material residual value guarantees, material restrictive covenants, or purchase options. The Company's lease portfolio consists primarily of operating leases. Amounts after January 1, 2019, are reported under Topic 842 in accordance with ASU 2016-02.

Lease costs and related information were as follows:

(\$ in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Operating lease costs	\$ 13	\$ 12	\$ 29	\$ 23
Short-term operating lease costs	\$ 9	\$ 7	\$ 13	\$ 12
Variable operating lease costs	\$ 1	\$ 2	\$ 2	\$ 3
Operating cash flows from operating leases	\$ (12)	\$ (11)	\$ (28)	\$ (22)
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 4	\$ 4	\$ 21	\$ 17
Weighted-average remaining lease term (years) - operating leases	10 years	11 years	10 years	11 years
Weighted-average discount rate - operating leases	4.1 %	4.5 %	4.1 %	4.5 %

The undiscounted future non-cancellable lease payments under our operating leases were as follows:

Year:	June 30, 2020	December 31, 2019
2020	\$ 24	\$ 45
2021	41	38
2022	30	30
2023	25	24
2024	22	22
Thereafter	119	114
Total lease payments	261	273
Less: imputed interest	57	58
Present value of lease liabilities	\$ 204	\$ 215

Lease liabilities included in the Company's consolidated balance sheet as of June 30, 2020, were as follows:

(\$ in millions)	June 30, 2020	December 31, 2019
Short-term operating lease liabilities	\$ 29	\$ 35
Lease liabilities included in liabilities held for sale	28	16
Long-term operating lease liabilities	147	164
Total operating lease liabilities	\$ 204	\$ 215

## 16. COMMITMENTS AND CONTINGENCIES

*Contract Performance Contingencies* - Contract profit margins may include estimates of revenues for matters on which the customer and the Company have not reached agreement, such as settlements in the process of negotiation, contract changes, claims, and requests for equitable adjustment for unanticipated contract costs. These estimates are based upon management's best assessment of the underlying causal events and circumstances and recognized to the extent of expected recovery based upon contractual entitlements and the probability of successful negotiation with the customer. As of June 30, 2020, amounts recognized in connection with claims and requests for equitable adjustment were not material individually or in aggregate.

*Guarantees of Performance Obligations* - From time to time in the ordinary course of business, HII may enter into joint ventures, teaming agreements, and other business arrangements to support the Company's products and services. The Company attempts to limit its exposure under these arrangements to its investment or the extent of obligations under the applicable contract. In some cases, however, HII may be required to guarantee performance of the arrangement's obligations and, in such cases, generally obtains cross-indemnification from the other members of the arrangement.

In the ordinary course of business, the Company may guarantee obligations of its subsidiaries under certain contracts. Generally, the Company is liable under such guarantees only if its subsidiary is unable to perform its obligations. Historically, the Company has not incurred any substantial liabilities resulting from these guarantees. As of June 30, 2020, the Company was not aware of any existing event of default that would require it to satisfy any of these guarantees.

*Environmental Matters* - The estimated cost to complete environmental remediation has been accrued when it is probable that the Company will incur such costs in the future to address environmental conditions at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party ("PRP") by the Environmental Protection Agency or similarly designated by another environmental agency, and the related costs can be estimated by management. These accruals do not include any litigation costs related to environmental matters, nor do they include amounts recorded as asset retirement obligations. To assess the potential impact on the Company's consolidated financial statements, management estimates the range of reasonably possible remediation costs that could be incurred by the Company, taking into account currently available facts on each site, as well as the current state of technology and prior experience remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimated that as of June 30, 2020, the probable estimable future cost for environmental remediation was immaterial. Factors that could result in changes to the Company's estimates include: modification of planned remedial actions, increases or decreases in the estimated time required to remediate, changes to the determination of legally responsible parties, discovery of more extensive contamination than anticipated, changes in laws and regulations affecting remediation requirements, and improvements in remediation technology. Should other PRPs not pay their allocable share of remediation costs, the Company may incur costs exceeding those already estimated and accrued. In addition, there are certain potential remediation sites where the costs of remediation cannot be reasonably estimated. Although management cannot predict whether new information gained as remediation progresses will materially affect the estimated liability accrued, management does not believe that future remediation expenditures will have a material effect on the Company's consolidated financial position, results of operations, or cash flows.

*Financial Arrangements* - In the ordinary course of business, HII uses letters of credit issued by commercial banks to support certain leases, insurance policies, and contractual performance obligations, as well as surety bonds issued by insurance companies principally to support the Company's self-insured workers' compensation plans. As of June 30, 2020, the Company had \$16 million in issued but undrawn letters of credit, as indicated in Note 13: Debt, and \$272 million of surety bonds outstanding.

*U.S. Government Claims* - From time to time, the U.S. Government communicates to the Company potential claims, disallowed costs, and penalties concerning prior costs incurred by the Company with which the U.S. Government disagrees. When such preliminary findings are presented, the Company and U.S. Government representatives engage in discussions, from which HII evaluates the merits of the claims and assesses the amounts being questioned. Although the Company believes that the resolution of any of these matters will not have a material effect on its consolidated financial position, results of operations, or cash flows, it cannot predict the ultimate outcome of these matters.

**Collective Bargaining Agreements** - Of the Company's approximately 42,000 employees, approximately 50% are covered by a total of nine collective bargaining agreements and one site stabilization agreement. Newport News has four collective bargaining agreements covering represented employees, which expire in November 2020, November 2021, December 2022, and April 2024. The collective bargaining agreement that expires in November 2021 covers approximately 50% of Newport News employees. Newport News craft workers employed at the Kesselring Site near Saratoga Springs, New York are represented under an indefinite Department of Energy ("DoE") site agreement. Ingalls has five collective bargaining agreements covering represented employees, all of which expire in March 2022. Approximately 25 Technical Solutions employees at various locations are represented by unions and perform work under collective bargaining agreements. The Company believes its relationship with its employees is satisfactory. Collective bargaining agreements generally expire after three years to five years and are subject to renegotiation at that time. The Company does not expect the results of these negotiations, either individually or in the aggregate, to have a material effect on the Company's consolidated results of operations.

## 17. EMPLOYEE PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company provides eligible employees defined benefit pension plans, postretirement benefit plans, and defined contribution pension plans.

The costs of the Company's defined benefit pension plans and other postretirement benefit plans for the three and six months ended June 30, 2020 and 2019, were as follows:

(\$ in millions)	Three Months Ended June 30				Six Months Ended June 30			
	Pension Benefits		Other Benefits		Pension Benefits		Other Benefits	
	2020	2019	2020	2019	2020	2019	2020	2019
Components of Net Periodic Benefit Cost								
Service cost	\$ 45	\$ 36	\$ 3	\$ 1	\$ 90	\$ 72	\$ 5	\$ 3
Interest cost	65	70	4	5	129	139	8	10
Expected return on plan assets	(122)	(101)	—	—	(243)	(203)	—	—
Amortization of prior service cost (credit)	3	4	(6)	(6)	6	9	(11)	(11)
Amortization of net actuarial loss (gain)	27	28	(1)	(2)	54	56	(3)	(5)
Net periodic benefit cost	<u>\$ 18</u>	<u>\$ 37</u>	<u>\$ —</u>	<u>\$ (2)</u>	<u>\$ 36</u>	<u>\$ 73</u>	<u>\$ (1)</u>	<u>\$ (3)</u>

The Company made the following contributions to its defined benefit pension plans and other postretirement benefit plans for the six months ended June 30, 2020 and 2019:

(\$ in millions)	Six Months Ended June 30	
	2020	2019
Pension plans		
Qualified minimum	\$ —	\$ —
Discretionary		
Qualified	65	5
Non-qualified	4	3
Other benefit plans	17	16
Total contributions	<u>\$ 86</u>	<u>\$ 24</u>

For the year ending December 31, 2020, the Company expects cash contributions to its qualified defined benefit pension plans to be \$205 million, all of which will be discretionary.



## 18. STOCK COMPENSATION PLANS

During the six months ended June 30, 2020 and 2019, the Company issued new stock awards as follows:

*Restricted Performance Stock Rights* - For the six months ended June 30, 2020, the Company granted approximately 0.1 million RPSRs at a weighted average share price of \$231.16. These rights are subject to cliff vesting on December 31, 2022. For the six months ended June 30, 2019, the Company granted approximately 0.1 million RPSRs at a weighted average share price of \$210.26. These rights are subject to cliff vesting on December 31, 2021. All of the RPSRs are subject to the achievement of performance-based targets at the end of the respective vesting periods and will ultimately vest between 0% and 200% of grant date value.

For the six months ended June 30, 2020 and 2019, 0.1 million and 0.3 million of stock awards vested, respectively, of which approximately 0.1 million each year were transferred to the Company from employees in satisfaction of minimum tax withholding obligations.

The following table summarizes the status of the Company's outstanding stock awards as of June 30, 2020:

	Stock Awards (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)
Total stock awards	374	\$ 213.03	1.4

### Compensation Expense

The Company recorded stock-based compensation for the value of awards granted to Company employees and non-employee members of the board of directors for the three months ended June 30, 2020 and 2019, of \$6 million and \$7 million, respectively. The Company recorded stock-based compensation for the value of awards granted to Company employees and non-employee members of the board of directors for the six months ended June 30, 2020 and 2019, of \$13 million and \$12 million, respectively.

The Company recorded tax benefits related to stock awards of \$1 million for the three months ended June 30, 2020 and 2019. The Company recorded tax benefits related to stock awards of \$2 million for the six months ended June 30, 2020 and 2019. The Company recognized tax benefits associated with the issuance of stock in settlement of stock awards for the three months ended June 30, 2020 and 2019, of \$1 million and less than \$1 million, respectively. The Company recognized tax benefits associated with the issuance of stock in settlement of stock awards for the six months ended June 30, 2020 and 2019, of \$3 million and \$5 million, respectively.

### Unrecognized Compensation Expense

As of June 30, 2020, the Company had less than \$1 million of unrecognized compensation expense associated with Restricted Stock Rights granted in 2020, 2019 and 2018, which will be recognized over a weighted average period of 1.2 years, and \$42 million of unrecognized compensation expense associated with RPSRs granted in 2020, 2019, and 2018, which will be recognized over a weighted average period of 1.6 years.

## 19. SUBSIDIARY GUARANTORS

As described in Note 13: Debt, the Company issued senior notes through the consolidating parent company, HII. Performance of the Company's obligations under its senior notes outstanding as of June 30, 2020, and December 31, 2019, including any repurchase obligations resulting from a change of control, is fully and unconditionally guaranteed, jointly and severally, on an unsecured basis, by each of HII's existing and future material domestic subsidiaries ("Subsidiary Guarantors"). The Subsidiary Guarantors are 100% owned by HII. Under SEC Regulation S-X Rule 3-10, each HII subsidiary that did not provide a guarantee ("Non-Guarantors") is minor and HII, as the parent company issuer, did not have independent assets or operations. There are no significant restrictions on the ability of the parent company and the Subsidiary Guarantors to obtain funds from their respective subsidiaries by dividend or loan, except those imposed by applicable law.

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

### OVERVIEW

#### Our Business

Huntington Ingalls Industries, Inc. ("HII", "we", "us", or "our") is America's largest military shipbuilding company and a provider of professional services to partners in government and industry. For more than a century, our Ingalls segment in Mississippi and Newport News segment in Virginia have built more ships in more ship classes than any other U.S. naval shipbuilder. We also provide a range of services to the governmental, energy, and oil and gas markets through our Technical Solutions segment. Headquartered in Newport News, Virginia, HII employs approximately 42,000 people domestically and internationally.

We conduct most of our business with the U.S. Government, primarily the DoD. As prime contractor, principal subcontractor, team member, or partner, we participate in many high-priority U.S. defense programs. Ingalls includes our non-nuclear ship design, construction, repair, and maintenance businesses. Newport News includes all of our nuclear ship design, construction, overhaul, refueling, and repair and maintenance businesses. Our Technical Solutions segment provides a wide range of professional services, including fleet support, MDIS, nuclear and environmental, and oil and gas services.

In July 2020, we announced changes to the organization and alignment within our Technical Solutions segment. Following a series of strategic acquisitions and major contract awards, coupled with a review of existing capabilities and the segment's organizational structure, Technical Solutions reconstituted its internal organization to better serve existing and future customers while achieving support function efficiencies. Beginning in the third quarter of 2020, our Technical Solutions segment will be organized as follows:

#### ***Defense and Federal Solutions ("DFS")***

DFS is focused on solving tough national security challenges for the DoD, the intelligence community, and federal civilian agencies around the globe. The group's expertise includes maritime fleet sustainment; intelligence, surveillance, and reconnaissance; cyber operations; secure enterprise information technology engineering and operations; advanced modeling, simulation, and training; and logistics management.

#### ***Unmanned Systems***

Our unmanned systems products and services create advanced unmanned maritime solutions for defense, marine research, and commercial applications. Serving customers in more than 30 countries, unmanned systems provides design, autonomy, manufacturing, testing, operations, and sustainment of unmanned systems, including unmanned underwater vehicles and unmanned surface vessels.

#### ***Nuclear and Environmental Services***

Our nuclear and environmental services support the national security mission of the Department of Energy through the management and operation of national nuclear laboratories, as well as environmental remediation at legacy cleanup sites. Through decades of experience in safe nuclear operations, the group is also postured to serve the growing commercial nuclear power plant decommissioning market. As part of our nuclear and environmental services, we participate in joint ventures, including Newport News Nuclear BWXT Los Alamos, LLC ("N3B"), Mission Support and Test Services, LLC ("MSTS"), and Savannah River Nuclear Solutions, LLC ("SRNS").

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the year ended December 31, 2019.

#### **Business Environment**

**COVID-19 Pandemic** - The COVID-19 global pandemic has had wide ranging effects on the global health environment and disrupted the global and U.S. economies and financial markets, including impacts to our employees, customers, suppliers, and communities. COVID-19 Events are also impacting our operations, and the full impacts of COVID-19 Events on our fiscal year 2020 financial results and beyond are uncertain. We believe that

the most significant elements of uncertainty are the intensity and duration of the impact on our employees' ability to work effectively, disruption in our supply chain, disruption of the U.S. Government's and our other customers' abilities to perform their obligations, and impact on pension assets and other investment performance.

We are aggressively managing our response to the uncertainties regarding COVID-19 Events. Our primary focus has been to minimize the risk to our employees by implementing liberal leave policies and increased telecommuting, and making benefits changes to provide employees maximum flexibility. We have also adjusted policies and workspaces to align with Centers for Disease Control and Prevention ("CDC") guidelines and to support social distancing, including changes to shift schedules to reduce concurrent headcount, increased sanitation efforts, working to procure personal protective equipment for employees, and suspension of all non-essential work travel. As a result, we have incurred and expect to continue incurring costs related to COVID-19 Events, including paid leave, quarantining employees and recurring facility cleaning. While our shipyards and other facilities remain open and productive, we have experienced a decrease in workforce attendance, which has impacted our operations due to delay and disruption from the lack of availability of critical skills and out-of-sequence work.

Under Section 3610 of the CARES Act, contractors may submit claims for employee paid time off caused by restrictions from COVID-19 Events in circumstances where the employee could not work remotely. Such instances may include paid time off for employees to allow for plant decontamination, idle time due to social distancing restrictions, paid time off to take care of dependents impacted by government ordered school or day care closures, and employee quarantines due to travel restrictions or coming into contact, being diagnosed, or taking care of someone diagnosed with COVID-19. We have taken steps to preserve our rights to pursue such claims for ourselves and our subcontractors.

While costs related to COVID-19 Events are allowable under U.S. Government contracts, our contract estimates reflect margin impact uncertainty, because such costs may not result in equitable adjustments, particularly on firm fixed price and fixed price incentive contracts, or may not be adequately covered by insurance. We also have no assurance that Congress will appropriate sufficient funds to cover the reimbursement of costs contemplated by the CARES Act. For the three and six months ended June 30, 2020, we recognized across all of our programs an aggregate unfavorable impact on operating margin of \$61 million for delay and disruption cost estimates directly attributable to COVID-19 Events. Continued lower staffing levels and lower employee productivity could impact our ability to achieve anticipated milestones and further affect our 2020 financial results and beyond. We also are deferring certain payroll taxes pursuant to the CARES Act, which has the effect of increasing our cash from operations in 2020, but reducing cash from operations in 2021 and 2022.

We are also focused on actively supporting our customers, suppliers and communities. We have been proactive in engaging with our U.S. Government customers regarding future contract adjustments. While there has been no change in contract terms or substantial degradation in timely payments from customers, we have experienced delays in decisions on certain contract awards. We are unable to predict how our customers will allocate resources in the future as they react to the evolving demands of the COVID-19 response. We have accelerated payments to small business suppliers in an effort to minimize supply chain disruption. To complement these efforts, we took actions to enhance liquidity and strengthen our balance sheet by issuing \$1 billion in new senior notes and entering into an incremental \$500 million revolving credit facility. We have also decided to temporarily halt stock repurchases and will continue to reassess when to initiate repurchases.

While there remains substantial uncertainty regarding the impact of COVID-19 Events going forward, our crisis management team meets regularly to assess the COVID-19 environment and prioritizes our flexibility to respond to new developments. Our employees, suppliers, customers, and communities are facing significant challenges, and we cannot predict how the COVID-19 environment will evolve or the full impact it will have. For further information on the potential impact of COVID-19 Events to the company, see Part 2, Item 1A "Risk Factors".

*U.S. Government Contracts* - Long-term uncertainty exists with respect to overall levels of defense spending across the future years' defense plan, and it is likely that U.S. Government discretionary spending levels will continue to be subject to significant pressure.

The National Defense Authorization Act, as well as appropriations measures that funded the DoD, DoE, and all other federal agencies, was enacted in December 2019 for fiscal year 2020. While these measures largely supported our individual programs, we cannot predict the potential impact should fiscal year 2020 appropriations be reprioritized or reprogrammed for other purposes by the executive branch. Long-term funding for certain programs in which we participate may be reduced, delayed, or canceled. In addition, spending cuts and/or reprioritization of

defense investment could adversely affect the viability of our suppliers, subcontractors, and employee base. Our contracts or subcontracts under programs in which we participate may be terminated or adjusted by the U.S. Government or the prime contractor as a result of lack of government funding or reductions or delays in government funding. Significant reductions in the number of ships procured by the U.S. Navy or significant delays in funding our ship programs would have a material effect on our financial position, results of operations, or cash flows.

The budget environment remains a significant long-term risk. Considerable uncertainty exists regarding how future budget and program decisions will develop and what challenges budget changes will present for the defense industry. We believe continued budget pressures will have serious implications for defense discretionary spending, the defense industrial base, including us, and the customers, employees, suppliers, subcontractors, investors, and communities that rely on companies in the defense industrial base. Although it is difficult to determine specific impacts, we expect that over the longer term, the budget environment may result in fewer contract awards and lower revenues, profits, and cash flows from our U.S. Government contracts. It is likely budget and program decisions made in this environment will have long-term impacts on us and the entire defense industry.

### **Critical Accounting Policies, Estimates, and Judgments**

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2019, we consider our policies relating to the following matters to be critical accounting policies:

- Revenue recognition;
- Purchase accounting, goodwill, and intangible assets;
- Litigation, commitments, and contingencies;
- Retirement related benefit plans; and
- Workers' compensation.

As of June 30, 2020, there had been no material changes to the foregoing critical accounting policies, estimates, and judgments since December 31, 2019.

We have incorporated realized and estimated future effects of COVID-19 Events, based upon current conditions and our judgment of the future impacts of COVID-19 Events, with respect to contract costs and revenue recognition, effective income tax rates, and the fair values of our long-lived assets, financial instruments, intangible assets, and goodwill recorded at our reporting units. See Note 2: Basis of Presentation.

In addition, the effects of COVID-19 Events have required us to consider whether these events are a triggering event for goodwill impairment purposes and whether goodwill was impaired as of June 30, 2020. While goodwill impairment testing is required at least annually, additional testing is required when any triggering event occurring between annual tests would more likely than not reduce the fair value of a reporting unit below its carrying amount.

We experienced a decline in share price and a resulting decrease in market capitalization in the second quarter of 2020 due to the overall macroeconomic effects of COVID-19 Events. As a result of the overall market decline and the uncertainty surrounding COVID-19 Events, we assessed the key inputs and assumptions for each of our reporting units, including sensitivity analyses over forecasts, market multiples, and discount rates. Based upon our assessment and analyses, we concluded there was no impairment for the quarter ended June 30, 2020. Notwithstanding this conclusion, we consider our Government Services reporting unit's goodwill to be at risk of impairment in the event of future declines in our forecast of operating results, cash flows, or discount rates. Based upon our interim sensitivity analyses, we estimate that the fair value of our Government Services reporting unit exceeds carrying value by less than 10%. We are required to perform the next annual goodwill impairment test on November 30, 2020, or earlier if an interim impairment test is required.

### **Contracts**

We generate most of our revenues from long-term U.S. Government contracts for design, production, and support activities. Government contracts typically include the following cost elements: direct material, labor and

subcontracting costs, and certain indirect costs, including allowable general and administrative expenses. Unless otherwise specified in a contract, costs billed to contracts with the U.S. Government are treated as allowable and allocable costs under the Federal Acquisition Regulation ("FAR") and the U.S. Cost Accounting Standards ("CAS") regulations. Examples of costs incurred by us that are not allowable under the FAR and CAS regulations include certain legal costs, lobbying costs, charitable donations, interest expense, and advertising costs.

We monitor our policies and procedures with respect to our contracts on a regular basis to ensure consistent application under similar terms and conditions, as well as compliance with all applicable government regulations. In addition, the Defense Contract Audit Agency routinely audits the costs we incur that are allocated to contracts with the U.S. Government.

Our contracts typically fall into one of four categories: firm fixed-price, fixed-price incentive, cost-type, and time and materials. See Note 7: Revenue.

- *Firm Fixed-Price Contracts* - A firm fixed-price contract is a contract in which the specified scope of work is agreed to for a price that is predetermined by bid or negotiation and not generally subject to adjustment regardless of costs incurred by the contractor.
- *Fixed-Price Incentive Contracts* - Fixed-price incentive contracts provide for reimbursement of the contractor's allowable costs, but are subject to a cost-share limit that affects profitability. Fixed-price incentive contracts effectively become firm fixed-price contracts once the cost-share limit is reached.
- *Cost-Type Contracts* - Cost-type contracts provide for reimbursement of the contractor's allowable costs plus a fee that represents profit. Cost-type contracts generally require that the contractor use its reasonable efforts to accomplish the scope of the work within some specified time and some stated dollar limitation.
- *Time and Materials* - Time and materials contracts specify a fixed hourly billing rate for each direct labor hour expended and reimbursement for allowable material costs and expenses.

*Contract Fees* - Negotiated contract fee structures include: fixed fee amounts, cost sharing arrangements to reward or penalize contractors for under or over cost target performance, respectively, positive award fees, and negative penalty arrangements. Profit margins may vary materially depending on the negotiated contract fee arrangements, percentage-of-completion of the contract, the achievement of performance objectives, and the stage of performance at which the right to receive fees, particularly under incentive and award fee contracts, is finally determined.

*Award Fees* - Certain contracts contain award fees based on performance criteria such as cost, schedule, quality, and technical performance. Award fees are determined and earned based on an evaluation by the customer of our performance against such negotiated criteria. We consider award fees to be variable consideration and generally include these fees in the transaction price using a most likely amount approach. Award fees are limited to the extent of funding allotted by the customer and available for performance and those amounts for which a significant reversal of revenue is not probable.

## **Program Descriptions**

For convenience, a brief description of certain programs discussed in this Quarterly Report on Form 10-Q is included in the "Glossary of Programs" in this section.

## CONSOLIDATED OPERATING RESULTS

The following table presents selected financial highlights:

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
Sales and service revenues	\$ 2,027	\$ 2,188	\$ (161)	(7) %	\$ 4,290	\$ 4,268	\$ 22	1 %
Cost of product sales and service revenues	1,763	1,834	(71)	(4) %	3,603	3,586	17	— %
Income from operating investments, net	7	5	2	40 %	13	9	4	44 %
General and administrative expenses	214	184	30	16 %	428	355	73	21 %
Operating income	57	175	(118)	(67) %	272	336	(64)	(19) %
Other income (expense)								
Interest expense	(25)	(18)	(7)	(39) %	(41)	(34)	(7)	(21) %
Non-operating retirement benefit	30	2	28	1,400 %	60	5	55	1,100 %
Other, net	3	5	(2)	(40) %	(10)	6	(16)	(267) %
Federal and foreign income taxes	12	36	(24)	(67) %	56	67	(11)	(16) %
Net earnings	\$ 53	\$ 128	\$ (75)	(59) %	\$ 225	\$ 246	\$ (21)	(9) %

### Operating Performance Assessment and Reporting

We manage and assess the performance of our business based on our performance on individual contracts and programs using the financial measures referred to below, with consideration given to the Critical Accounting Policies, Estimates, and Judgments referred to in this section. Our portfolio of long-term contracts is largely flexibly-priced. Therefore, sales tend to fluctuate in concert with costs across our large portfolio of active contracts, with operating income being a critical measure of operating performance. Under FAR rules that govern our business with the U.S. Government, most types of costs are allowable, and we do not focus on individual cost groupings, such as cost of sales or general and administrative expenses, as much as we do on total contract costs, which are a key factor in determining contract operating income. As a result, in evaluating our operating performance, we look primarily at changes in sales and service revenues, as well as operating income, including the effects of significant changes in operating income as a result of changes in contract estimates and the use of the cumulative catch-up method of accounting in accordance with GAAP. This approach is consistent with the long-term life cycle of our contracts, as management assesses the bidding of each contract by focusing on net sales and operating profit and monitors performance in a similar manner through contract completion. Consequently, our discussion of business segment performance focuses on net sales and operating profit, consistent with our approach for managing our business.

Cost of sales for both product sales and service revenues consists of materials, labor, and subcontracting costs, as well as an allocation of indirect costs for overhead. We manage the type and amount of costs at the contract level, which is the basis for estimating our total costs at completion of our contracts. Unusual fluctuations in operating performance driven by changes in a specific cost element across multiple contracts are described in our analysis.

## Sales and Service Revenues

Sales and service revenues were comprised as follows:

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
	Product sales	\$ 1,420	\$ 1,520	\$ (100)	(7)%	\$ 3,044	\$ 3,010	\$ 34
Service revenues	607	668	(61)	(9)%	1,246	1,258	(12)	(1)%
Sales and service revenues	<u>\$ 2,027</u>	<u>\$ 2,188</u>	<u>\$ (161)</u>	(7)%	<u>\$ 4,290</u>	<u>\$ 4,268</u>	<u>\$ 22</u>	1%

Product sales for the three months ended June 30, 2020, decreased \$100 million, or 7%, compared with the same period in 2019. Product sales for the six months ended June 30, 2020, increased \$34 million, or 1%, compared with the same period in 2019. Ingalls product sales increased \$8 million for the three months ended June 30, 2020, primarily as a result of higher volumes in amphibious assault ships and the *Legend* class NSC program, partially offset by lower volume in surface combatants. Ingalls product sales increased \$48 million for the six months ended June 30, 2020, primarily as a result of higher volumes in amphibious assault ships, partially offset by lower volume in the *Legend* class NSC program. Newport News product sales decreased \$137 million and \$43 million for the three and six months ended June 30, 2020, respectively, primarily as a result of lower volumes in submarines and aircraft carriers. Technical Solutions product sales increased \$29 million for the three and six months ended June 30, 2020, primarily as a result of the acquisition of Hydroid in 2020.

Service revenues for the three months ended June 30, 2020, decreased \$61 million, or 9%, compared with the same period in 2019. Service revenues for the six months ended June 30, 2020, decreased \$12 million, or 1%, compared with the same period in 2019. Ingalls service revenues decreased \$8 million for the three months ended June 30, 2020, as a result of lower volumes in amphibious assault ship and surface combatant services. Ingalls service revenues decreased \$4 million for the six months ended June 30, 2020, as a result of lower volume in amphibious assault ship services, partially offset by higher volume in surface combatant services. Newport News service revenues decreased \$19 million and \$53 million for the three and six months ended June 30, 2020, respectively, primarily as a result of lower volumes in aircraft carrier services, partially offset by higher volumes in naval nuclear support and submarine services. Technical Solutions service revenues decreased \$34 million for the three months ended June 30, 2020, primarily as a result of lower volumes in MDIS, fleet support, and nuclear and environmental services, partially offset by higher volume in oil and gas services and the acquisition of Hydroid in 2020. Technical Solutions service revenues increased \$45 million for the six months ended June 30, 2020, primarily as a result of the acquisition of Fulcrum in 2019, higher volumes in MDIS and oil and gas services, and the acquisition of Hydroid in 2020, partially offset by lower volumes in fleet support and nuclear and environmental services.

## Cost of Sales and Service Revenues

Cost of product sales, cost of service revenues, income from operating investments, net, and general and administrative expenses were as follows:

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
Cost of product sales	\$ 1,253	\$ 1,250	\$ 3	— %	\$ 2,543	\$ 2,508	\$ 35	1 %
% of product sales	88.2 %	82.2 %			83.5 %	83.3 %		
Cost of service revenues	510	584	(74)	(13) %	1,060	1,078	(18)	(2) %
% of service revenues	84.0 %	87.4 %			85.1 %	85.7 %		
Income from operating investments, net	7	5	2	40 %	13	9	4	44 %
General and administrative expenses	214	184	30	16 %	428	355	73	21 %
% of sales and service revenues	10.6 %	8.4 %			10.0 %	8.3 %		
Cost of sales and service revenues	\$ 1,970	\$ 2,013	\$ (43)	(2) %	\$ 4,018	\$ 3,932	\$ 86	2 %

### Cost of Product Sales

Cost of product sales for the three months ended June 30, 2020, increased \$3 million compared with the same period in 2019. Cost of product sales for the six months ended June 30, 2020, increased \$35 million, or 1%, compared with the same period in 2019. Ingalls cost of product sales increased \$1 million and \$15 million for the three and six months ended June 30, 2020, respectively, primarily as a result of program cost growth, lower risk retirement on the *Legend* class NSC program, and the volume changes described above, partially offset by higher risk retirement on *Delbert D. Black* (DDG 119) in connection with its delivery and a capital expenditure contract incentive. Newport News cost of product sales increased \$5 million and \$47 million for the three and six months ended June 30, 2020, respectively, primarily as a result of program cost growth, partially offset by the volume decreases described above. Technical Solutions cost of product sales increased \$18 million for the three and six months ended June 30, 2020, primarily as a result of the volume changes described above. Cost of product sales related to the Operating FAS/CAS Adjustment decreased \$21 million and \$45 million for the three and six months ended June 30, 2020, respectively, as described below.

Cost of product sales as a percentage of product sales increased from 82.2% for the three months ended June 30, 2019, to 88.2% for the three months ended June 30, 2020. Cost of product sales as a percentage of product sales increased from 83.3% for the six months ended June 30, 2019, to 83.5% for the six months ended June 30, 2020. The increase in both periods was primarily due to unfavorable cumulative catch-up adjustments of \$111 million on Block IV boats of the *Virginia* class (SSN 774) submarine program, including \$95 million for cost and schedule performance and updates to our assumptions for future program efficiencies and performance as a result of cost and schedule trends, as well as \$16 million from delay and disruption directly attributable to COVID-19 Events. The increase in cost of product sales as a percentage of product sales was also driven by unfavorable cumulative catch-up adjustments aggregating \$61 million across all programs resulting from cost estimates for delay and disruption from discrete COVID-19 Events, including \$16 million in relation to the Block IV boats of the *Virginia* class (SSN 774) submarine program discussed above, partially offset by a favorable change in the Operating FAS/CAS Adjustment and higher risk retirement on *Delbert D. Black* (DDG 119), as well as year-to-year variances in contract mix.

### Cost of Service Revenues

Cost of service revenues for the three months ended June 30, 2020, decreased \$74 million, or 13%, compared with the same period in 2019. Cost of service revenues for the six months ended June 30, 2020, decreased \$18 million, or 2%, compared with the same period in 2019. Ingalls cost of service revenues decreased \$5 million for the three months ended June 30, 2020, primarily as a result of the volume changes described above. Ingalls cost of service revenues increased \$2 million for the six months ended June 30, 2020, primarily as a result of the volume changes described above and recovery of losses on a long-term design contract in 2019. Newport News cost of service



revenues decreased \$26 million for the three months ended June 30, 2020, primarily as a result of the volume changes described above and higher risk retirement on naval nuclear support services. Newport News cost of service revenues decreased \$47 million for the six months ended June 30, 2020, primarily as a result of the volume changes described above. Technical Solutions cost of service revenues decreased \$38 million for the three months ended June 30, 2020, primarily as a result of the volume changes described above and a loss on a fleet support services contract in 2019. Technical Solutions cost of service revenues increased \$37 million for the six months ended June 30, 2020, primarily as a result of the volume changes described above, partially offset by a loss on a fleet support services contract in 2019. Cost of service revenues related to the Operating FAS/CAS Adjustment decreased \$5 million and \$10 million for the three and six months ended June 30, 2020, respectively, as described below.

Cost of service revenues as a percentage of service revenues decreased from 87.4% for the three months ended June 30, 2019, to 84.0% for the three months ended June 30, 2020, primarily driven by a loss on a fleet support services contract in 2019, higher risk retirement on naval nuclear support services, a favorable change in the Operating FAS/CAS Adjustment, and year-to-year variances in contract mix. Cost of service revenues as a percentage of service revenues decreased from 85.7% for the six months ended June 30, 2019, to 85.1% for the six months ended June 30, 2020, primarily driven by a favorable change in the Operating FAS/CAS Adjustment, a loss on a fleet support services contract in 2019, and year-to-year variances in contract mix.

#### *Income (Loss) from Operating Investments, Net*

The activities of our operating investments are closely aligned with the operations of the segments holding the investments. We therefore record income related to earnings from equity method investments in our operating income.

Income from operating investments, net for the three and six months ended June 30, 2020, increased \$2 million and \$4 million, respectively, from the same periods in 2019, primarily due to higher equity income from our nuclear and environmental joint ventures.

#### *General and Administrative Expenses*

In accordance with industry practice and the regulations that govern the cost accounting requirements for government contracts, most general and administrative expenses are considered allowable and allocable costs on government contracts. These costs are allocated to contracts in progress on a systematic basis, and contract performance factors include this cost component as an element of cost.

General and administrative expenses for the three months ended June 30, 2020, increased \$30 million from the same period in 2019, primarily driven by higher overhead costs and unfavorable changes in current state income tax expense. General and administrative expenses for the six months ended June 30, 2020, increased \$73 million from the same period in 2019, primarily driven by higher overhead costs and unfavorable changes in current state income tax expense.

#### **Operating Income**

We consider operating income to be an important measure for evaluating our operating performance, and, as is typical in the industry, we define operating income as revenues less the related cost of producing the revenues and general and administrative expenses.

We internally manage our operations by reference to "segment operating income," which is defined as operating income before the Operating FAS/CAS Adjustment and non-current state income taxes, neither of which affects segment performance. Segment operating income is not a recognized measure under GAAP. When analyzing our operating performance, investors should use segment operating income in addition to, and not as an alternative for, operating income or any other performance measure presented in accordance with GAAP. It is a measure we use to evaluate our core operating performance. We believe segment operating income reflects an additional way of viewing aspects of our operations that, when viewed with our GAAP results, provides a more complete understanding of factors and trends affecting our business. We believe the measure is used by investors and is a useful indicator to measure our performance. Because not all companies use identical calculations, our presentation of segment operating income may not be comparable to similarly titled measures of other companies.

The following table reconciles operating income to segment operating income:

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
Operating income	\$ 57	\$ 175	\$ (118)	(67)%	\$ 272	\$ 336	\$ (64)	(19)%
Operating FAS/CAS Adjustment	(63)	(37)	(26)	(70)%	(126)	(71)	(55)	(77)%
Non-current state income taxes	1	—	1	— %	5	2	3	150 %
Segment operating income	\$ (5)	\$ 138	\$ (143)	(104)%	\$ 151	\$ 267	\$ (116)	(43)%

### Segment Operating Income

Segment operating loss for the three months ended June 30, 2020, was \$5 million, compared with segment operating income of \$138 million for the same period in 2019. Segment operating income for the six months ended June 30, 2020, was \$151 million, compared with segment operating income of \$267 million for the same period in 2019. The decreases in both periods were primarily driven by unfavorable cumulative catch-up adjustments in the second quarter totaling \$167 million from updated cost and schedule assumptions across all programs. Included in the \$167 million of unfavorable adjustments is \$111 million related to Block IV boats of the *Virginia* class (SSN 774) submarine program for unfavorable cost and schedule performance and updates to our assumptions for future program efficiencies and performance as a result of cost and schedule trends. Our risk retirement assumptions on Block IV boats anticipated boat-to-boat cost and schedule improvements working down the learning curve, but performance trends, exacerbated by COVID-19 Events, now make those improvements less likely to occur. Also included in the \$167 million of unfavorable adjustments is \$61 million for the margin impact of delay and disruption cost estimates across all programs from discrete COVID-19 Events, including \$16 million relating to Block IV of the *Virginia* class (SSN 774) submarine program, which is included in the \$111 million unfavorable adjustments noted above. These unfavorable margin adjustments were partially offset by higher risk retirement on *Delbert D. Black* (DDG 119) in connection with its delivery and a capital expenditure contract incentive, and a loss on a fleet support services contract in 2019.

Activity within each segment is discussed in Segment Operating Results below.

### FAS/CAS Adjustment and Operating FAS/CAS Adjustment

The FAS/CAS Adjustment reflects the difference between expenses for pension and other postretirement benefits determined in accordance with GAAP ("FAS") and the expenses determined in accordance with U.S. Cost Accounting Standards ("CAS"). The Operating FAS/CAS Adjustment excludes the following components of net periodic benefit costs: interest cost, expected return on plan assets, amortization of prior service cost (credit) and actuarial loss (gain), and settlement and curtailment effects.

The components of the Operating FAS/CAS Adjustment were as follows:

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
FAS expense	\$ (18)	\$ (35)	\$ 17	49 %	\$ (35)	\$ (70)	\$ 35	50 %
CAS cost	111	74	37	50 %	221	146	75	51 %
FAS/CAS Adjustment	93	39	54	138 %	186	76	110	145 %
Non-operating retirement benefit	(30)	(2)	(28)	(1,400)%	(60)	(5)	(55)	(1,100)%
Operating FAS/CAS Adjustment	\$ 63	\$ 37	\$ 26	70 %	\$ 126	\$ 71	\$ 55	77 %

The Operating FAS/CAS Adjustment was a net benefit of \$63 million and \$37 million for the three months ended June 30, 2020 and 2019, respectively. The Operating FAS/CAS Adjustment was a net benefit of \$126 million and \$71 million for the six months ended June 30, 2020 and 2019, respectively. For the three and six months ended

June 30, 2020, the favorable changes in the Operating FAS/CAS Adjustments of \$26 million and \$55 million, respectively, were primarily driven by the more immediate recognition of lower interest rates under CAS.

#### *Non-current State Income Taxes*

Non-current state income taxes include deferred state income taxes, which reflect the change in deferred state tax assets and liabilities, and the tax expense or benefit associated with changes in state unrecognized tax benefits in the relevant period. These amounts are recorded within operating income. Current period state income tax expense is charged to contract costs and included in cost of sales and service revenues in segment operating income.

Non-current state income tax expense for the three months ended June 30, 2020, was \$1 million, compared to a non-current state income tax expense of less than \$1 million for the same period in 2019. The increase in non-current state income tax expense was driven by an increase in state uncertain tax positions. Non-current state income tax expense for the six months ended June 30, 2020, was \$5 million, compared to a non-current state income tax expense of \$2 million for the same period in 2019. The increase in non-current state income tax expense was driven by an increase in state uncertain tax positions.

#### **Interest Expense**

Interest expense for the three and six months ended June 30, 2020, increased \$7 million, compared with the same periods in 2019, primarily due to the Company's issuance of \$500 million aggregate principal amount of senior notes due 2025 and \$500 million aggregate principal amount of senior notes due 2030.

#### **Non-Operating Retirement Benefit**

The non-operating retirement benefit includes the following components of net periodic benefit costs: interest cost, expected return on plan assets, amortization of prior service cost (credit) and actuarial loss (gain), and settlement and curtailment effects. For the three and six months ended June 30, 2020, the favorable changes in the non-operating retirement benefit of \$28 million and \$55 million, respectively, were primarily driven by higher 2019 returns on plan assets.

#### **Other, Net**

Other, net income decreased \$2 million for the three months ended June 30, 2020, compared with the same period in 2019, primarily driven by an allowance on a loan receivable, partially offset by gains on investments in marketable securities. Other, net income (expense) decreased \$16 million for the six months ended June 30, 2020, compared with the same period in 2019, primarily driven by an allowance on a loan receivable and losses on investments in marketable securities.

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

Our effective income tax rates on earnings from operations for the three months ended June 30, 2020 and 2019, were 18.5% and 22.0%, respectively. Our effective income tax rates on earnings from operations for the six months ended June 30, 2020 and 2019, were 19.9% and 21.4%, respectively. The lower effective tax rates for the three and six months ended June 30, 2020, were primarily attributable to research and development tax credits for prior periods.

For the three and six months ended June 30, 2020, our effective tax rates differed from the federal statutory rate primarily as a result of the research and development tax credits for prior periods. For the three months ended June 30, 2019, our effective tax rate differed from the federal statutory rate primarily as a result of an unfavorable adjustment to claims for research and development tax credits for prior periods. For the six months ended June 30, 2019, our effective tax rate did not differ materially from the federal statutory corporate income tax rate of 21%. See Note 12: Income Taxes.

## SEGMENT OPERATING RESULTS

### Basis of Presentation

We are organized into three reportable segments: Ingalls, Newport News, and Technical Solutions.

The following table presents segment operating results:

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
<b>Sales and Service Revenues</b>								
Ingalls	\$ 622	\$ 622	\$ —	— %	\$ 1,251	\$ 1,206	\$ 45	4 %
Newport News	1,122	1,279	(157)	(12) %	2,463	2,558	(95)	(4) %
Technical Solutions	320	321	(1)	— %	637	561	76	14 %
Intersegment eliminations	(37)	(34)	(3)	(9) %	(61)	(57)	(4)	(7) %
Sales and service revenues	<u>\$ 2,027</u>	<u>\$ 2,188</u>	<u>\$ (161)</u>	<u>(7) %</u>	<u>\$ 4,290</u>	<u>\$ 4,268</u>	<u>\$ 22</u>	<u>1 %</u>
<b>Operating Income</b>								
Ingalls	\$ 55	\$ 69	\$ (14)	(20) %	\$ 123	\$ 115	\$ 8	7 %
Newport News	(69)	71	(140)	(197) %	26	152	(126)	(83) %
Technical Solutions	9	(2)	11	550 %	2	—	2	— %
Segment operating income (loss)	(5)	138	(143)	(104) %	151	267	(116)	(43) %
Non-segment factors affecting operating income (loss)								
Operating FAS/CAS Adjustment	63	37	26	70 %	126	71	55	77 %
Non-current state income taxes	(1)	—	(1)	— %	(5)	(2)	(3)	(150) %
Operating income	<u>\$ 57</u>	<u>\$ 175</u>	<u>\$ (118)</u>	<u>(67) %</u>	<u>\$ 272</u>	<u>\$ 336</u>	<u>\$ (64)</u>	<u>(19) %</u>

## KEY SEGMENT FINANCIAL MEASURES

### Sales and Service Revenues

Period-to-period revenues reflect performance under new and ongoing contracts. Changes in sales and service revenues are typically expressed in terms of volume. Unless otherwise described, volume generally refers to increases (or decreases) in reported revenues due to varying production activity levels, delivery rates, or service levels on individual contracts. Volume changes will typically carry a corresponding income change based on the margin rate for a particular contract.

### Segment Operating Income (Loss)

Segment operating income reflects the aggregate performance results of contracts within a segment. Excluded from this measure are certain costs not directly associated with contract performance, such as the Operating FAS/CAS Adjustment and non-current state income taxes. Changes in segment operating income are typically expressed in terms of volume, as discussed above, or performance. Performance refers to changes in contract margin rates. These changes typically relate to profit recognition associated with revisions to estimated costs at completion ("EAC") that reflect improved or deteriorated operating performance on that contract. Operating income changes are accounted for on a cumulative to date basis at the time an EAC change is recorded. Segment operating income may also be affected by, among other things, contract performance, the effects of workforce stoppages, the effects of natural disasters such as hurricanes, resolution of disputed items with the customer, recovery of insurance proceeds, and other discrete events. At the completion of a long-term contract, any originally estimated costs not incurred or reserves not fully utilized, such as warranty reserves, could also impact contract earnings. Where such items have occurred and the effects are material, a separate description is provided.

## Cumulative Adjustments

For the three and six months ended June 30, 2020 and 2019, favorable and unfavorable cumulative catch-up margin adjustments were as follows:

(\$ in millions)	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Gross favorable adjustments	\$ 56	\$ 63	\$ 117	\$ 94
Gross unfavorable adjustments	(167)	(44)	(196)	(81)
Net adjustments	\$ (111)	\$ 19	\$ (79)	\$ 13

For the three months ended June 30, 2020, favorable cumulative catch-up margin adjustments included risk retirement on *Delbert D. Black* (DDG 119) in connection with its delivery and a capital expenditure contract incentive, and other individually insignificant adjustments. During the same period, unfavorable cumulative catch-up adjustments were primarily driven by \$111 million on the Block IV boats of the *Virginia* class (SSN 774) submarine program, including \$95 million for cost and schedule performance and updates to our assumptions for future program efficiencies and performance as a result of cost and schedule trends. Our risk retirement assumptions on Block IV boats anticipated boat-to-boat cost and schedule improvements working down the learning curve, but performance trends, exacerbated by the COVID-19 Events, now make those improvements less likely to occur. Unfavorable cumulative catch-up adjustments on the Block IV boats of the *Virginia* class (SSN 774) submarine program also included \$16 million from delay and disruption directly attributable to COVID-19 Events due to lower employee attendance, availability of critical skills, and out-of-sequence work. Unfavorable cumulative catch-up adjustments across all programs resulting from delay and disruption cost estimates for discrete COVID-19 Events were \$61 million, including \$16 million in relation to the Block IV boats of the *Virginia* class (SSN 774) submarine program, discussed above. For the six months ended June 30, 2020, favorable cumulative catch-up adjustments included risk retirement on *Delbert D. Black* (DDG 119) in connection with its delivery and a capital expenditure contract incentive, and risk retirement on the *San Antonio* class (LPD 17) program. During the same period, unfavorable cumulative catch-up adjustments were primarily driven by the Block IV boats of the *Virginia* class (SSN 774) submarine program and delay and disruption from discrete COVID-19 Events, discussed above for the three months ended June 30, 2020.

For the three months ended June 30, 2019, favorable cumulative catch-up adjustments included risk retirement on the *Legend* class NSC program and other individually insignificant adjustments. During the same period, unfavorable cumulative catch-up adjustments included recognition of a forward loss on a fleet support services contract and other individually insignificant adjustments. For the six months ended June 30, 2019, favorable cumulative catch-up adjustments were related to risk retirement on the *Legend* class NSC program and other individually insignificant adjustments. During the same period, unfavorable cumulative catch-up adjustments included recognition of a forward loss on a fleet support services contract and other individually insignificant adjustments.

## Ingalls

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
Sales and service revenues	\$ 622	\$ 622	\$ —	— %	\$ 1,251	\$ 1,206	\$ 45	4 %
Segment operating income	55	69	(14)	(20)%	123	115	8	7 %
As a percentage of segment sales	8.8 %	11.1 %			9.8 %	9.5 %		

## Sales and Service Revenues

Ingalls revenues for the three months ended June 30, 2020, were flat compared to the same period in 2019, primarily driven by higher revenues in the *Legend* class NSC program and amphibious assault ships, partially offset by lower revenues in surface combatants. Revenues on the *Legend* class NSC program increased due to higher volumes on *Calhoun* (NSC 10) and *Friedman* (NSC 11), partially offset by lower volume on *Midgett* (NSC 8). Amphibious assault ship revenues increased as a result of higher volumes on *Harrisburg* (LPD 30), *Richard M.*

*McCool Jr.* (LPD 29), and LHA 9 (unnamed), partially offset by lower volumes on *Tripoli* (LHA 7) and *Bougainville* (LHA 8). Surface combatant revenues decreased due to lower volumes on USS *Fitzgerald* (DDG 62) restoration and modernization, *Jack H. Lucas* (DDG 125), and *Frank E. Petersen Jr.* (DDG 121), partially offset by higher volumes on *Ted Stevens* (DDG 128), *Delbert D. Black* (DDG 119), and *Sam Nunn* (DDG 133).

Ingalls revenues for the six months ended June 30, 2020, increased \$45 million, or 4%, from the same period in 2019, primarily driven by higher revenues in amphibious assault ships and surface combatants, partially offset by lower revenues in the *Legend* class NSC program. Amphibious assault ship revenues increased as a result of higher volumes on *Harrisburg* (LPD 30) and *Richard M. McCool Jr.* (LPD 29), partially offset by lower volumes on *Tripoli* (LHA 7) and *Bougainville* (LHA 8). Surface combatant revenues increased due to higher volumes on *Ted Stevens* (DDG 128), *Delbert D. Black* (DDG 119), *Jeremiah Denton* (DDG 129), and *Sam Nunn* (DDG 133), partially offset by lower volumes on USS *Fitzgerald* (DDG 62) restoration and modernization, *Jack H. Lucas* (DDG 125), and *Frank E. Petersen Jr.* (DDG 121). Revenues on the *Legend* class NSC program decreased due to lower volume on *Midgett* (NSC 8), partially offset by higher volume on *Calhoun* (NSC 10).

### Segment Operating Income

Ingalls segment operating income for the three months ended June 30, 2020, was \$55 million, compared with \$69 million for the same period in 2019. The decrease was primarily driven by unfavorable margin adjustments, including delay and disruption from COVID-19 Events and lower risk retirement on the *Legend* class NSC program, partially offset by higher risk retirement on *Delbert D. Black* (DDG 119) in connection with its delivery and a capital expenditure contract incentive.

Ingalls segment operating income for the six months ended June 30, 2020, was \$123 million, compared with \$115 million for the same period in 2019. The increase was primarily driven by higher risk retirement on *Delbert D. Black* (DDG 119) in connection with its delivery and a capital expenditure contract incentive, partially offset by unfavorable adjustments, including delay and disruption from COVID-19 Events and lower risk retirement on the *Legend* class NSC program.

### Newport News

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
Sales and service revenues	\$ 1,122	\$ 1,279	\$ (157)	(12)%	\$ 2,463	\$ 2,558	\$ (95)	(4)%
Segment operating income (loss)	(69)	71	(140)	(197)%	26	152	(126)	(83)%
As a percentage of segment sales	(6.1)%	5.6%			1.1%	5.9%		

### Sales and Service Revenues

Newport News revenues for the three months ended June 30, 2020, decreased \$157 million, or 12%, from the same period in 2019, primarily driven by lower revenues in aircraft carriers and submarines, partially offset by higher revenues in naval nuclear support services. Aircraft carrier revenues decreased primarily as a result of lower volumes on the RCOH of USS *George Washington* (CVN 73), USS *Gerald R. Ford* (CVN 78), and *Kennedy* (CVN 79), partially offset by higher volumes on the advance planning contract for the RCOH of USS *John C. Stennis* (CVN 74) and *Enterprise* (CVN 80). Submarine revenues decreased primarily as a result of lower volumes on the *Virginia* class (SSN 774) submarine program, partially offset by higher volume on the *Columbia* class submarine program. The lower volume on the *Virginia* class (SSN 774) submarine program was due to lower volumes on Block IV and Block III boats, partially offset by higher volumes on Block V boats. Naval nuclear support services revenues increased primarily as a result of higher volumes in submarine and carrier fleet support services, partially offset by lower volume in facility maintenance services.

Newport News revenues for the six months ended June 30, 2020, decreased \$95 million, or 4%, from the same period in 2019, primarily driven by lower revenues in aircraft carriers and naval nuclear support services, partially offset by higher revenues in submarines. Aircraft carrier revenues decreased primarily as a result of lower volumes on the RCOH of USS *George Washington* (CVN 73), USS *Gerald R. Ford* (CVN 78), and *Kennedy* (CVN 79), partially offset by higher volumes on the advance planning contract for the RCOH of USS *John C. Stennis* (CVN 74) and *Enterprise* (CVN 80). Naval nuclear support services revenues decreased primarily as a result of lower volume

in facility maintenance services, partially offset by higher volumes in carrier and submarine fleet support services. Submarine revenues increased primarily as a result of higher volume on the *Columbia* class submarine program, partially offset by lower volume on the *Virginia* class (SSN 774) submarine program. The lower volume on the *Virginia* class (SSN 774) submarine program was due to lower volumes on Block IV and Block III boats, partially offset by higher volumes on Block V boats.

### Segment Operating Income (Loss)

Newport News segment operating loss for the three months ended June 30, 2020, was \$69 million, compared with segment operating income of \$71 million for the same period in 2019. Newport News segment operating income for the six months ended June 30, 2020, was \$26 million, compared with \$152 million for the same period in 2019. The decreases in both periods were primarily due to unfavorable cumulative catch-up adjustments on Block IV boats of the *Virginia* class (SSN 774) submarine program for the reasons described above in "Segment Operating Results - Cumulative Adjustments".

### Technical Solutions

(\$ in millions)	Three Months Ended June 30		2020 over 2019		Six Months Ended June 30		2020 over 2019	
	2020	2019	Dollars	Percent	2020	2019	Dollars	Percent
Sales and service revenues	\$ 320	\$ 321	\$ (1)	— %	\$ 637	\$ 561	\$ 76	14 %
Segment operating income (loss)	9	(2)	11	550 %	2	—	2	— %
<i>As a percentage of segment sales</i>	<b>2.8 %</b>	<i>(0.6) %</i>			<b>0.3 %</b>	<i>— %</i>		

### Sales and Service Revenues

Technical Solutions revenues for the three months ended June 30, 2020, decreased \$1 million from the same period in 2019, due to lower volume on MDIS, fleet support, and nuclear and environmental services, partially offset by the acquisition of Hydroid in 2020 and higher volumes on oil and gas services.

Technical Solutions revenues for the six months ended June 30, 2020, increased \$76 million, or 14%, from the same period in 2019, due to the acquisition of Hydroid in 2020, the acquisition of Fulcrum in 2019, and higher volumes in MDIS and oil and gas and fleet support services, partially offset by lower volume in nuclear and environmental services.

### Segment Operating Income (Loss)

Technical Solutions segment operating income for the three months ended June 30, 2020, was \$9 million, compared with an operating loss of \$2 million for the same period in 2019. The increase was primarily driven by a loss on a fleet support services contract in 2019.

Technical Solutions segment operating income increased \$2 million for the six months ended June 30, 2020. The increase was primarily driven by a loss on a fleet support services contract in 2019, partially offset by lower performance on other fleet support services contracts.

### BACKLOG

Total backlog as of June 30, 2020, and December 31, 2019, was approximately \$46.1 billion and \$46.5 billion, respectively. Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer). Backlog excludes unexercised contract options and unfunded IDIQ orders. For contracts having no stated contract values, backlog includes only the amounts committed by the customer.

The following table presents funded and unfunded backlog by segment as of June 30, 2020, and December 31, 2019:

(\$ in millions)	June 30, 2020			December 31, 2019		
	Funded	Unfunded	Total Backlog	Funded	Unfunded	Total Backlog
Ingalls	\$ 10,085	\$ 2,216	\$ 12,301	\$ 9,062	\$ 1,693	\$ 10,755
Newport News	10,610	21,946	32,556	8,414	26,352	34,766
Technical Solutions	655	554	1,209	435	538	973
Total backlog	\$ 21,350	\$ 24,716	\$ 46,066	\$ 17,911	\$ 28,583	\$ 46,494

Approximately 16% of the \$46.5 billion total backlog as of December 31, 2019, is expected to be converted into sales in 2020. U.S. Government orders comprised substantially all of the total backlog as of June 30, 2020, and December 31, 2019.

## Awards

The value of new contract awards during the six months ended June 30, 2020, was approximately \$3.8 billion, comprised primarily of construction contracts for LPD 31 (unnamed) and *Sam Nunn* (DDG 133).

## LIQUIDITY AND CAPITAL RESOURCES

We seek to efficiently convert operating results into cash for deployment in operating our businesses, implementing our business strategy, and maximizing stockholder value. We use various financial measures to assist in capital deployment decision making, including net cash provided by operating activities and free cash flow. We believe these measures are useful to investors in assessing our financial performance.

The following table summarizes key components of cash flow provided by operating activities:

(\$ in millions)	Six Months Ended June 30		2020 over 2019
	2020	2019	Dollars
Net earnings	\$ 225	\$ 246	\$ (21)
Depreciation and amortization	121	107	14
Provision for doubtful accounts	6	(2)	8
Stock-based compensation	13	12	1
Deferred income taxes	21	30	(9)
Loss (gain) on investments in marketable securities	5	(4)	9
Retiree benefit funding less than (in excess of) expense	(50)	46	(96)
Trade working capital decrease (increase)	(72)	(468)	396
Net cash provided by operating activities	\$ 269	\$ (33)	\$ 302

## Cash Flows

We discuss below our major operating, investing, and financing activities for the six months ended June 30, 2020 and 2019, as classified on our unaudited condensed consolidated statements of cash flows.

### Operating Activities

Cash provided by operating activities for the six months ended June 30, 2020, was \$269 million, compared with \$33 million used in operating activities for the same period in 2019. The favorable change in operating cash flow was primarily due to changes in trade working capital and lower income tax payments, partially offset by higher contributions to retiree benefit plans. The change in trade working capital was primarily driven by the timing of receipts of accounts receivable and payments of accounts payable.



For the six months ended June 30, 2020, we made discretionary contributions to our qualified defined benefit pension plans totaling \$65 million, compared with \$5 million of discretionary contributions for the same period in 2019. For the year ending December 31, 2020, we expect cash contributions to our qualified defined benefit pension plans to be \$205 million, all of which will be discretionary.

We expect cash generated from operations in combination with our current cash and cash equivalents, as well as existing credit facilities, to be more than sufficient to service debt, meet contractual obligations, and finance capital expenditures for at least the next 12 months.

#### *Investing Activities*

Cash used in investing activities for the six months ended June 30, 2020, was \$519 million, compared with \$361 million used in investing activities for the same period in 2019. The change in investing cash was driven by the acquisition of Hydroid in 2020, partially offset by the acquisition of Fulcrum in 2019 and lower capital expenditures in 2020. For 2020, we expect our capital expenditures for maintenance and sustainment to be approximately 1.5% of annual revenues and our discretionary capital expenditures to be approximately 3.0% to 4.0% of annual revenues.

#### *Financing Activities*

Cash provided by financing activities for the six months ended June 30, 2020, was \$806 million, compared with \$183 million provided by financing activities for the same period in 2019. The change in financing cash was primarily due to \$1 billion of proceeds from the issuance of long-term debt, a decrease of \$52 million from common stock repurchases, and a decrease of \$10 million in employee taxes on certain share-based payment arrangements, partially offset by a \$414 million decrease in net proceeds from revolving credit facility borrowings, an increase of \$13 million in debt issuance costs, and a \$12 million increase in cash dividend payments.

#### **Free Cash Flow**

Free cash flow represents cash provided by (used in) operating activities less capital expenditures net of related grant proceeds. Free cash flow is not a measure recognized under GAAP. Free cash flow has limitations as an analytical tool and should not be considered in isolation from, or as a substitute for, analysis of our results as reported under GAAP. We believe free cash flow is an important measure for our investors because it provides them insight into our current and period-to-period performance and our ability to generate cash from continuing operations. We also use free cash flow as a key operating metric in assessing the performance of our business and as a key performance measure in evaluating management performance and determining incentive compensation. Free cash flow may not be comparable to similarly titled measures of other companies.

The following table reconciles net cash provided by operating activities to free cash flow:

(\$ in millions)	Six Months Ended June 30		2020 over 2019
	2020	2019	Dollars
Net cash provided by (used in) operating activities	\$ 269	\$ (33)	\$ 302
Less capital expenditures:			
Capital expenditure additions	(150)	(234)	84
Grant proceeds for capital expenditures	9	69	(60)
Free cash flow	\$ 128	\$ (198)	\$ 326

Free cash flow for the six months ended June 30, 2020, increased \$326 million from the same period in 2019, primarily due to changes in trade working capital, lower income tax payments, and lower capital expenditures, partially offset by higher contributions to retiree benefit plans.

#### **Governmental Regulation and Supervision**

The U.S. Government has the ability, pursuant to regulations relating to contractor business systems, to decrease or withhold contract payments if it determines significant deficiencies exist in one or more such systems. As of June

30, 2020 and 2019, the cumulative amounts of payments withheld by the U.S. Government under our contracts subject to these regulations were not material to our liquidity or cash flows.

### **Other Sources and Uses of Capital**

*Additional Capital* - In the second quarter of 2020, we issued \$500 million aggregate principal amount of unregistered 3.844% senior notes due 2025 and \$500 million aggregate principal amount of unregistered 4.200% senior notes due 2030, both with registration rights. The net proceeds are intended to be used for general corporate purposes, which may include debt repayments and working capital. Interest on these senior notes is payable semiannually.

In the second quarter of 2020, we also entered into the 364-Day Facility, which includes a revolving credit facility of \$500 million and may be drawn upon during a period of 364 days from April 3, 2020. The revolving credit facility has a variable interest rate on outstanding borrowings based on the LIBOR plus a spread based upon our credit rating, which may vary between 2.000% and 2.375%. The revolving credit facility also has a commitment fee rate of 0.50%.

The 364-Day Facility contains customary affirmative and negative covenants, as well as a financial covenant based on a maximum total leverage ratio. Each of our existing and future material wholly owned domestic subsidiaries, except those that are specifically designated as unrestricted subsidiaries, are and will be guarantors under the 364-Day Facility.

The 364-Day Facility and proceeds from the issuance of new senior notes provide us with substantial additional liquidity and flexibility given the unpredictable impact of COVID-19 Events.

### **Off-Balance Sheet Arrangements**

In the ordinary course of business, we use standby letters of credit issued by commercial banks and surety bonds issued by insurance companies principally to support our self-insured workers' compensation plans. As of June 30, 2020, we had \$16 million in issued but undrawn letters of credit and \$272 million of surety bonds outstanding.

### **ACCOUNTING STANDARDS UPDATES**

See Note 3: Accounting Standards Updates in Part I, Item 1 for information related to accounting standards updates.

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

Statements in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission ("SEC"), as well as other statements we may make from time to time, other than statements of historical fact, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed in these statements. Factors that may cause such differences include:

- Changes in government and customer priorities and requirements (including government budgetary constraints, shifts in defense spending, and changes in customer short-range and long-range plans);
- Our ability to estimate our future contract costs and perform our contracts effectively;
- Changes in procurement processes and government regulations and our ability to comply with such requirements;
- Our ability to deliver our products and services at an affordable life cycle cost and compete within our markets;
- Natural and environmental disasters and political instability;
- Our ability to execute our strategic plan, including with respect to share repurchases, dividends, capital expenditures, and strategic acquisitions;
- Adverse economic conditions in the United States and globally;
- Health epidemics, pandemics and similar outbreaks, including the COVID-19 pandemic;
- Changes in key estimates and assumptions regarding our pension and retiree health care costs;
- Security threats, including cyber security threats, and related disruptions; and
- Other risk factors discussed herein and in our other filings with the SEC.

There may be other risks and uncertainties that we are unable to predict at this time or that we currently do not expect to have a material adverse effect on our business, and we undertake no obligation to update or revise any forward-looking statements. You should not place undue reliance on any forward looking statements that we may make.

**GLOSSARY OF PROGRAMS**

Included below are brief descriptions of some of the programs discussed in this Quarterly Report on Form 10-Q.

<b>Program Name</b>	<b>Program Description</b>
<i>America</i> class (LHA 6) amphibious assault ships	Design and build large deck amphibious assault ships that provide forward presence and power projection as an integral part of joint, interagency and multinational maritime expeditionary forces. The <i>America</i> class (LHA 6) ships, together with the <i>Wasp</i> class (LHD 1) ships, are the successors to the decommissioned <i>Tarawa</i> class (LHA 1) ships. The <i>America</i> class (LHA 6) ships optimize aviation operations and support capabilities. We delivered USS <i>America</i> (LHA 6) in April 2014 and <i>Tripoli</i> (LHA 7) in February 2020, and we are currently constructing <i>Bougainville</i> (LHA 8).
<i>Arleigh Burke</i> class (DDG 51) destroyers	Build guided missile destroyers designed for conducting anti-air, anti-submarine, anti-surface, and strike operations. The Aegis-equipped <i>Arleigh Burke</i> class (DDG 51) destroyers are the U.S. Navy's primary surface combatant, and have been constructed in variants, allowing technological advances during construction. In 2016 we delivered USS <i>John Finn</i> (DDG 113), in 2017 we delivered <i>Ralph Johnson</i> (DDG 114), in 2019 we delivered <i>Paul Ignatius</i> (DDG 117), and in 2020 we delivered <i>Delbert D. Black</i> (DDG 119). We have contracts to construct the following <i>Arleigh Burke</i> class (DDG 51) destroyers: <i>Frank E. Petersen Jr.</i> (DDG 121), <i>Lenah H. Sutcliffe Higbee</i> (DDG 123), <i>Jack H. Lucas</i> (DDG 125), <i>Ted Stevens</i> (DDG 128), <i>Jeremiah Denton</i> (DDG 129), <i>George M. Neal</i> (DDG 131), <i>Sam Nunn</i> (DDG 133), DDG 135 (unnamed), and DDG 137 (unnamed).
Carrier RCOH	Perform refueling and complex overhaul ("RCOH") of nuclear-powered aircraft carriers, which is required at the mid-point of their 50-year life cycle. USS <i>Abraham Lincoln</i> (CVN 72) was redelivered to the U.S. Navy in the second quarter of 2017 and USS <i>George Washington</i> (CVN 73) arrived at Newport News for the start of its RCOH in August 2017.
<i>Columbia</i> class (SSBN 826) submarines	Newport News is participating in designing the <i>Columbia</i> class submarine as a replacement for the current aging <i>Ohio</i> class nuclear ballistic missile submarines, which were first introduced into service in 1981. The <i>Ohio</i> class SSBN includes 14 nuclear ballistic missile submarines and four nuclear cruise missile submarines. The <i>Columbia</i> class program plan of record is to construct 12 new ballistic missile submarines. The U.S. Navy has initiated the design process for the new class of submarines, and, in early 2017, the DoD signed the acquisition decision memorandum approving the <i>Columbia</i> class program's Milestone B, which formally authorizes the program's entry into the engineering and manufacturing development phase. We perform design work as a subcontractor to Electric Boat, and we have entered into a teaming agreement with Electric Boat to build modules for the entire <i>Columbia</i> (SSBN 826) class submarine program that leverages our <i>Virginia</i> class (SSN 774) experience. We have been awarded contracts from Electric Boat to begin integrated product and process development and provide long-lead-time material and advance construction for the <i>Columbia</i> class (SSBN 826) program. Construction of the first <i>Columbia</i> class (SSBN 826) submarine is expected to begin in 2021.

Fleet support services	Provide comprehensive life-cycle sustainment services to the U.S. Navy fleet and other DoD and commercial maritime customers. We provide services including maintenance, modernization, and repair on all ship classes; naval architecture, marine engineering, and design; integrated logistics support; technical documentation development; warehousing, asset management, and material readiness; operational and maintenance training development and delivery; software design and development; IT infrastructure support and data delivery and management; and cyber security and information assurance. We provide undersea vehicle and specialized craft development and prototyping services.
USS <i>Gerald R. Ford</i> class (CVN 78) aircraft carriers	Design and construction for the <i>Ford</i> class program, which is the aircraft carrier replacement program for the decommissioned <i>Enterprise</i> (CVN 65) and <i>Nimitz</i> class (CVN 68) aircraft carriers. USS <i>Gerald R. Ford</i> (CVN 78), the first ship of the <i>Ford</i> class, was delivered to the U.S. Navy in the second quarter of 2017. In June 2015, we were awarded a contract for the detail design and construction of <i>John F. Kennedy</i> (CVN 79), following several years of engineering, advance construction, and purchase of long-lead time components and material. In addition, we have received awards for detail design and construction of <i>Enterprise</i> (CVN 80) and <i>Doris Miller</i> (CVN 81). This category also includes the class' non-recurring engineering. The class is expected to bring improved warfighting capability, quality of life improvements for sailors, and reduced life cycle costs.
<i>Legend</i> class National Security Cutter	Design and build the U.S. Coast Guard's National Security Cutters ("NSCs"), the largest and most technically advanced class of cutter in the U.S. Coast Guard. The NSC is equipped to carry out maritime homeland security, maritime safety, protection of natural resources, maritime mobility, and national defense missions. The plan is for a total of 11 ships, of which the first eight ships have been delivered. <i>Stone</i> (NSC 9), <i>Calhoun</i> (NSC 10), and NSC 11 (unnamed) are currently under construction.
MDIS services	Provide services to DoD, intelligence, and federal civilian customers. Services are performed in six major portfolio areas: modeling, simulation and training, information technology and software application, artificial intelligence and data analytics, mission engineering and operations support, logistics and life cycle management, and cyber space operations.
Naval nuclear support services	Provide services to and in support of the U.S. Navy, ranging from services supporting the Navy's carrier and submarine fleets to maintenance services at U.S. Navy training facilities. Naval nuclear support services include design, construction, maintenance, and disposal activities for in service U.S. Navy nuclear ships worldwide through mobile and in-house capabilities. Services include maintenance services on nuclear reactor prototypes.
Nuclear and environmental services	Provide services in nuclear management and operations, and nuclear and non-nuclear fabrication and repair. We provide site management, nuclear and industrial facilities operations and maintenance, decontamination and decommissioning, and radiological and hazardous waste management services. We provide services, including fabrication, equipment repair, and technical engineering services. We participate in several joint ventures, including N3B, MSTS, and SRNS. N3B was awarded the Los Alamos Legacy Cleanup Contract at the DoE/National Nuclear Security Administration's Los Alamos National Laboratory. MSTS was awarded a contract for site management and operations at the Nevada National Security Site. SRNS provides site management and operations at the DoE's Savannah River Site near Aiken, South Carolina.

Oil and gas services

Deliver engineering, procurement, and construction management services to the oil and gas industry for major pipeline, production, and treatment facilities. These services include full life-cycle services for domestic and international projects, from concept identification through detail design, execution and construction, and decommissioning. Related field services include survey, inspection, commissioning and start-up, operations and maintenance, and optimization and debottlenecking.

*San Antonio* class (LPD 17) amphibious transport dock ships

Design and build amphibious transport dock ships, which are warships that embark, transport, and land elements of a landing force for a variety of expeditionary warfare missions, and also serve as the secondary aviation platform for Amphibious Readiness Groups. The *San Antonio* class (LPD 17) is the newest addition to the U.S. Navy's 21st century amphibious assault force, and these ships are a key element of the U.S. Navy's seabase transformation. In 2013, we delivered USS *Somerset* (LPD 25), in 2016, we delivered USS *John P. Murtha* (LPD 26), and, in 2017, we delivered USS *Portland* (LPD 27). We are currently constructing *Fort Lauderdale* (LPD 28), *Richard M. McCool Jr.* (LPD 29), and *Harrisburg* (LPD 30). In 2020 we were awarded a contract to construct LPD 31 (unnamed).

The decommissioned *Enterprise* (CVN 65)

Defuel and inactivate the world's first nuclear-powered aircraft carrier, which began in 2013. The inactivation was completed in the second quarter of 2018.

*Virginia* class (SSN 774) fast attack submarines

Construct attack submarines as the principal subcontractor to Electric Boat. The *Virginia* class (SSN 774) is a post-Cold War design tailored to excel in a wide range of warfighting missions, including anti-submarine and surface ship warfare; special operation forces; strike; intelligence, surveillance, and reconnaissance; carrier and expeditionary strike group support; and mine warfare.

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

We are exposed to market risk, primarily related to interest rates and foreign currency exchange rates.

*Interest Rates* - Our financial instruments subject to interest rate risk include commercial paper and floating rate borrowings under our credit facilities. As of June 30, 2020, our \$1,250 million revolving credit facility and \$500 million 364-Day Facility were undrawn.

*Foreign Currency* - We currently have, and in the future may enter into, foreign currency forward contracts to manage foreign currency exchange rate risk related to payments to suppliers denominated in foreign currencies. As of June 30, 2020, the fair values of our outstanding foreign currency forward contracts were not significant.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2020. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2020, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports the Company files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to management to allow their timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

During the three months ended June 30, 2020, no change occurred in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

While COVID-19 Events have not materially impacted internal control over financial reporting, management continues to monitor our operations, the operations of our customers and corporate partners, and government recommendations, including implementing liberal leave and work from home policies to protect our employees. Management will continue to monitor and modify internal control over financial reporting as appropriate under these circumstances.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

We have provided information about legal proceedings in which we are involved in the unaudited condensed consolidated financial statements in Part I, Item 1, which is incorporated herein by reference. In addition to the matters disclosed in Part I, Item 1, we are a party to various investigations, lawsuits, claims, and other legal proceedings that arise in the ordinary course of our business. Based on information available to us, we do not believe at this time that any of such other matters will individually, or in the aggregate, have a material adverse effect on our financial condition, results of operations, or cash flows. For further information on the risks we face from existing and future investigations, lawsuits, claims, and other legal proceedings, please see "Risk Factors" in Item 1A below.

### Item 1A. Risk Factors

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. COVID-19 Events have 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 Form 10-K is qualified by the information relating to COVID-19 included in this Quarterly Report on Form 10-Q, including the risk factor set forth below. 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 COVID-19. Such risks include disruptions or restrictions on our employees' ability to work or work effectively, as well as temporary closures of our facilities or the facilities of our customers or suppliers. We have experienced higher employee absentee rates due to COVID-19 Events, which has impacted our operations and financial results. Higher absentee rates attributable to COVID-19 Events, including because of illness, quarantines, government actions, facility closures or other restrictions in connection with COVID-19 Events, have impacted and are likely to continue to impact performance on our contracts and have increased and are likely to continue to increase our costs. These impacts will likely continue, and the cost increases may not be fully recoverable under our contracts or adequately covered by insurance, which could impact our profitability.

COVID-19 Events have also further caused disruption in our supply chain; caused delays in, and limited the ability of, the U.S. Government and other customers to perform, including in making timely decisions on contract awards; impacted investment performance; and caused other unpredictable events. Some or all of these impacts might continue into the future. In addition, COVID-19 Events have led to disruption and volatility in the global capital markets, which increases the cost of capital and adversely impacts access to capital.

We continue to work with our stakeholders (including customers, employees, suppliers and local communities) 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 actions in an effort to mitigate adverse consequences.

COVID-19 Events have impacted our business and results of operations, and the extent to which COVID-19 Events will impact our business, results of operations, and financial condition in the future is uncertain and will depend upon future developments. As a result, we cannot predict the full impact of COVID-19 Events, but it could materially affect our business, financial position, results of operations, and/or cash flows in the future.



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

In November 2019, the Company's board of directors authorized an increase in the Company's stock repurchase program from \$2.2 billion to \$3.2 billion and an extension of the term of the program to October 31, 2024. Repurchases are made from time to time at management's discretion in accordance with applicable federal securities laws. All repurchases of HII common stock have been recorded as treasury stock. The following table summarizes information relating to purchases made by or on behalf of the Company of shares of the Company's common stock during the quarter ended June 30, 2020.

<b>Period</b>	<b>Total Number of Shares Purchased<sup>1</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in millions)</b>
April 1, 2020 to April 30, 2020	—	\$ —	—	\$ 1,142.0
May 1, 2020 to May 31, 2020	—	—	—	1,142.0
June 1, 2020 to June 30, 2020	—	—	—	1,142.0
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>—</b>	<b>\$ 1,142.0</b>

<sup>1</sup> From the stock repurchase program's inception through June 30, 2020, we purchased 12,850,860 shares at an average price of \$160.12 per share for a total of \$2.1 billion.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 3.1 [Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc., filed March 30, 2011 \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 4, 2011\).](#)
- 3.2 [Certificate of Amendment to the Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc., dated May 28, 2014 \(incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2014\).](#)
- 3.3 [Certificate of Amendment to the Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc., dated May 21, 2015 \(incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed on August 6, 2015\).](#)
- 3.4 [Restated Bylaws of Huntington Ingalls Industries, Inc. \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 1, 2016\).](#)
- 10.1 [2020 Revolving Credit Agreement among Huntington Ingalls Industries, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 6, 2020\).](#)
- 31.1 [Certification of the Chief Executive Officer Pursuant to Exchange Act Rule 13a-14\(a\)/15d-14\(a\), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of the Chief Financial Officer Pursuant to Exchange Act Rule 13a-14\(a\)/15d-14\(a\), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following financial information for the Company, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations and Comprehensive Income, (ii) the Condensed Consolidated Statements of Financial Position, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statements of Changes in Equity, and (v) the Notes to Condensed Consolidated Financial Statements.
- 104 The cover page from the Company's Quarterly Report on Form 10-Q, formatted in Inline XBRL and contained in Exhibit 101.

## 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.

Date: August 6, 2020

Huntington Ingalls Industries, Inc.  
(Registrant)

By: /s/ Nicolas Schuck

Nicolas Schuck

Corporate Vice President, Controller and Chief Accounting Officer  
(Duly Authorized Officer and Principal Accounting Officer)

**CERTIFICATION PURSUANT TO  
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, C. Michael Petters, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Huntington Ingalls Industries, Inc.;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 6, 2020

/s/ C. Michael Petters

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C. Michael Petters

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher D. Kastner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Huntington Ingalls Industries, Inc.;
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 registrant as of, and for, the periods presented in this report;
4. The registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 6, 2020

/s/ Christopher D. Kastner

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Christopher D. Kastner

Executive 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 Huntington Ingalls Industries, Inc. (the "company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C. Michael Petters, the President and Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, 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: August 6, 2020

/s/ C. Michael Petters

C. Michael Petters

President and Chief Executive 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 Huntington Ingalls Industries, Inc. (the "company") on Form 10-Q for the period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher D. Kastner, Corporate Vice President, Business Management and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, 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: August 6, 2020

/s/ Christopher D. Kastner

Christopher D. Kastner

Executive Vice President and Chief Financial Officer