Huntington Ingalls Industries, Inc. (Exact name of registrant as specified in its charter)

4101 Washington Avenue, Newport News, VA (Address of principal executive offices)

(757) 380-2000 Registrant’s telephone number, including area code

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 1.01 Entry into a Material Definitive Agreement.

On March 29, 2011, Huntington Ingalls Industries, Inc. (the “Company”) entered into a Separation and Distribution Agreement (the “Separation Agreement”) with Northrop Grumman Corporation (now named Titan II Inc.), New P, Inc. (now named Northrop Grumman Corporation)(“Northrop Grumman”), Northrop Grumman Shipbuilding, Inc. (“NGSB”) and Northrop Grumman Systems Corporation (“NGSC”), pursuant to which the Company was legally and structurally separated from Northrop Grumman.

Pursuant to the terms of the Separation Agreement, (i) Northrop Grumman completed a corporate reorganization to create a new holding company structure, (ii) the Company and Northrop Grumman effected certain transfers of assets and assumed certain liabilities so that each of the Company and Northrop Grumman retained both the assets of and liabilities associated with their respective businesses, (iii) subject to certain exceptions, all agreements, arrangements, commitments and undertakings, including all intercompany accounts payable or accounts receivable, including intercompany indebtedness and intercompany work orders between the Company and Northrop Grumman, were terminated or otherwise satisfied, effective no later than March 31, 2011 (the “Distribution Date”), (iv) the Company and Northrop Grumman agreed to share certain gains and liabilities and (v) Northrop Grumman distributed, on a pro rata basis, all of the issued and outstanding shares of common stock of the Company to Northrop Grumman’s stockholders via a pro rata dividend (the “Spin-Off”).

Consummation of the Spin-Off was subject to customary closing conditions that were satisfied prior to the Spin-Off, including, among other things, that (i) the Securities and Exchange Commission (the “SEC”) declare effective the Company’s registration statement on Form 10 relating to the registration of the Company’s common stock under the Securities Exchange Act of 1934, (ii) no stop order of the SEC suspending effectiveness of the Form 10 be in effect prior to the Spin-Off and (iii) the Company’s common stock be authorized for listing on the New York Stock Exchange.

In addition to, and concurrently with, the Separation Agreement, the Company, Northrop Grumman and certain of their respective subsidiaries entered into certain ancillary agreements, including (i) an Employee Matters Agreement that sets forth agreements between the Company and Northrop Grumman as to certain employment, compensation and benefits matters, (ii) an Insurance Matters Agreement that allocates to the Company and Northrop Grumman rights regarding various policies of insurance, (iii) an Intellectual Property License Agreement pursuant to which NGSB and its affiliates license certain of its intellectual property to NGSC and its affiliates and NGSC and its affiliates license certain of its intellectual property to NGSB and its affiliates, (iv) a Tax Matters Agreement that governs rights and obligations after the Spin-Off with respect to matters regarding U.S. Federal, state, local and foreign income taxes and other taxes, including tax liabilities and benefits, attributes, returns and contests, and (v) a Transition Services Agreement under which Northrop Grumman or certain of its subsidiaries will provide the Company with certain services for a limited time to help ensure an orderly transition following the distribution.

The foregoing descriptions of the Separation Agreement, Employee Matters Agreement, Insurance Matters Agreement, Intellectual Property License Agreement, Tax Matters Agreement and Transition Services Agreements (the “Agreements”) are qualified in their entirety by reference to the full text of the Agreements, which are filed as Exhibits 10.1, 10.2, 10.3, 10.4, 10.5 and 10.6 to this Current Report on Form 8-K.

ITEM 2.01 Completion of Acquisition or Disposition of Assets.

The information included in Item 1.01 is incorporated herein by reference.
ITEM 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Departure of Directors; Election of Directors

On March 30, 2011, the Board of Directors of the Company (the "Board") elected C. Michael Petters, Robert Bruner, Artur Davis, Anastasia Kelly, Paul D. Miller and Tom Schievelbein as members of the Board, effective as of 11:59 p.m. on March 30, 2011. Ms. Kelly was appointed to serve as chair, and Mr. Davis and Thomas B. Fargo (who was previously appointed to serve as non-executive Chairman of the Company) were appointed to serve as members, of the Governance Committee of the Board. Admiral Miller was appointed to serve as chair, and Admiral Fargo was appointed to serve as a member, of the Compensation Committee of the Board (the "Compensation Committee"). Mr. Schievelbein and Dr. Bruner were appointed to serve as members of the Audit Committee along with Karl von der Heyden who was previously appointed to serve as chair of the committee. Information regarding each of these directors is included under the heading "Management" in the Company’s Information Statement, dated March 18, 2011, and attached hereto as Exhibit 99.1. Such information has not changed and is incorporated herein by reference. In addition, on March 30, 2011, each of Mark Rabinowitz and Malcolm S. Swift tendered his resignation from the Board, effective as of 11:59 p.m. on March 30, 2011.

Compensatory Arrangements of Non-Employee Directors

The members of the Board who are not employed by the Company or one of its subsidiaries ("non-employee directors") will be compensated by the Company as follows:

Cash Compensation. Each non-employee director will be paid a cash retainer by the Company at an annualized rate of $100,000. A non-employee director who serves as non-executive chairman, a Board committee Chair and/or a member of certain Board committees, will be paid an additional annual cash retainer by the Company as follows:

<table>
<thead>
<tr>
<th>Position</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Executive Chairman Retainer</td>
<td>$250,000</td>
</tr>
<tr>
<td>Committee Chair Retainers</td>
<td></td>
</tr>
<tr>
<td>Audit Committee Chair</td>
<td>$20,000</td>
</tr>
<tr>
<td>Compensation Committee Chair</td>
<td>$15,000</td>
</tr>
<tr>
<td>Governance Committee Chair</td>
<td>$15,000</td>
</tr>
<tr>
<td>Audit Committee Member Retainer</td>
<td>$15,000</td>
</tr>
<tr>
<td>Compensation Committee Member Retainer</td>
<td>$5,000</td>
</tr>
<tr>
<td>Governance Committee Member Retainer</td>
<td>$5,000</td>
</tr>
</tbody>
</table>

Equity Compensation. Each non-employee director will also receive an award of restricted stock units ("RSUs") under the Huntington Ingalls Industries, Inc. 2011 Long-Term Incentive Stock Plan (the "LTISP") on the first trading day of each fiscal quarter of the Company, commencing with the second quarter of fiscal 2011. The number of RSUs awarded to a non-employee director for any such quarter will be determined by dividing (1) $25,000 by (2) the per share closing price (in regular trading) of a share of the Company’s common stock on the New York Stock Exchange on the date of grant, rounded down to the nearest whole unit.

Effective March 31, 2011, the Board also approved special initial long-term incentive awards to the non-employee directors in the form of an additional RSU award. Admiral Fargo was granted an initial award of 7,228 RSUs and Dr. Bruner, Ms. Kelly, Admiral Miller and Messrs. Davis, Schievelbein and von der Heyden each was granted an initial award of 4,819 RSUs.

Each non-employee director RSU award is fully vested at grant and will generally become payable within 30 days following the date the non-employee director ceases to provide services as a member of the Board. An RSU will be paid either in a share of Company common stock or, at the discretion of the Board, cash of equivalent value at the time of vesting (or a combination of cash and shares). Each non-employee director RSU
Appointment of Certain Officers

Effective March 31, 2011, the Board appointed Douglass Fontaine as the Company’s Corporate Vice President, Controller and Chief Accounting Officer.

Mr. Fontaine, 50, has served as Sector Vice President and Controller for NGSB since March 2008. In that position, he was responsible for accounting, financial planning and reporting, overhead budgets and rates, and Sarbanes-Oxley compliance for the sector. Previously, he served as Vice President and Business Manager of Estimating & Pricing, Operations, Engineering and Quality for Northrop Grumman Ship Systems from February 2006 through March 2008. In addition, since joining Northrop Grumman in 1988 as a financial analyst with the former Ingalls Shipbuilding, Mr. Fontaine has held a variety of other positions in business management for Northrop Grumman Ship Systems, including Vice President and Business Manager of Advanced Surface Combatants and Vice President of Finance. Mr. Fontaine is a certified public accountant and holds a bachelor’s degree in business management from the University of Mississippi.

In connection with his appointment, Mr. Fontaine will receive a base salary of $305,000 annually. Additionally, on March 31, 2011, Mr. Fontaine was granted 7,349 RPSRs (as defined below) and 9,036 RSRs (as defined below). Additionally, on March 31, 2011, Mr. Fontaine was granted an annual incentive compensation opportunity for 2011 under the Company’s annual incentive compensation programs (the Huntington Ingalls Industries, Inc. 2011 Annual Incentive Plan (For Non-Section 162(m) Officers) and The 2011 Incentive Compensation Plan of Huntington Ingalls Industries, Inc.) with a target bonus percentage of 45% of his base salary. The other terms of Mr. Fontaine’s RPSRs, RSRs and incentive compensation opportunity are identical to the terms of the awards to the named executive officers of the Company (the “NEOs”) described in further detail below under the heading “Compensation of Named Executive Officers.”

Compensation of Named Executive Officers

Base Salaries. The Company’s executive officers will receive base salaries as established by the Company from time to time. Effective March 31, 2011, the Compensation Committee approved the following initial annualized base salary rates for the NEOs:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position(s)</th>
<th>Base Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>President and Chief Executive Officer</td>
<td>$900,000</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>Vice President and Chief Financial Officer</td>
<td>$550,000</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td>$500,000</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>Vice President and General Manager—Newport News Operations</td>
<td>$500,000</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Vice President and Chief Human Resources Officer</td>
<td>$350,000</td>
</tr>
</tbody>
</table>

Annual Incentive Compensation Opportunities. Also effective March 31, 2011, the Compensation Committee approved grants to the NEOs of incentive compensation opportunities under the Company’s annual incentive compensation programs (the Huntington Ingalls Industries, Inc. 2011 Annual Incentive Plan (For Non-Section 162(m) Officers) and The 2011 Incentive Compensation Plan of Huntington Ingalls Industries, Inc. (the “ICP”). After the conclusion of the 2011 performance year, the Compensation Committee will base its determinations of the actual annual incentive amounts payable based on the performance of the Company and its business segments against certain metrics that have been established by the Compensation Committee. For Mr. Petters, Ms. Niland and Mr. Ermatinger, the relevant performance criteria include the Company’s operating margin and free cash flow for 2011. For Mr. Mulherin, the criteria include the Company’s operating margin and...
free cash flow for 2011, as well as operational criteria, return on sales criteria and free cash flow criteria for the Company’s Newport News segment for 2011.

For Mr. Edenzon, the criteria include the Company’s operating margin and free cash flow for 2011, as well as operational criteria, return on sales criteria and free cash flow criteria for the Company’s Ingalls segment for 2011.

The target bonus percentages (each as a percentage of the NEO’s base salary for the year) for the annual incentive awards to the NEOs are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Target Bonus Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>125%</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>70%</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>70%</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>70%</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>60%</td>
</tr>
</tbody>
</table>

A NEO’s actual annual incentive compensation payment for a year will be determined by the Compensation Committee and may range from 0% to 150% of the NEO’s target bonus percentage based on performance against the applicable performance criteria referenced above, and the Committee’s assessment of the individual’s performance.

If a NEO’s compensation is subject to the deductibility limitations of Section 162(m) of the Internal Revenue Code for a particular year, the NEO’s annual incentive payment for that year may not exceed a limit determined under the ICP for that year. In general, the ICP limits the maximum aggregate annual incentive amounts that may be paid to all such executives subject to Section 162(m) with respect to a particular year, in the aggregate, to 2.5% of the Company’s income from continuing operations (before federal and foreign income taxes and the cumulative effect of accounting changes and extraordinary items, less pension income (or plus pension expense) plus amortization and impairment of goodwill and other purchased intangibles, plus restructuring or similar charges to the extent they are separately disclosed in the annual report) for that year.

**Long-Term Equity Incentive Awards.** In addition, effective March 31, 2011, the Compensation Committee approved grants of certain long-term equity incentive awards to the NEOs under the LTISP. The incentive awards consisted of a combination of restricted performance stock rights (“RPSRs”) and restricted stock rights (“RSRs”), with the RPSR awards subject to the Terms and Conditions applicable to 2011 RPSRs granted under the LTISP (the “RPSR Terms”) and the RSRs subject to the Terms and Conditions applicable to 2011 RSRs granted under the LTISP (the “RSR Terms”). The forms of the RPSR Terms and RSR Terms were approved by the Compensation Committee, effective March 31, 2011. Each NEO received a number of RPSRs and a number of RSRs as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>RPSRs</th>
<th>RSRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>108,433</td>
<td>60,240</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>29,156</td>
<td>24,096</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>21,084</td>
<td>24,096</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>21,084</td>
<td>24,096</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>11,807</td>
<td>18,072</td>
</tr>
</tbody>
</table>

The RPSR Terms provide that the RPSRs will vest based on the performance of the Company during the period of time from January 1, 2011 to December 31, 2013 (the “Performance Period”). Performance will be measured against operating margin criteria and free cash flow criteria that have been established by the Compensation Committee. Between 0% and 200% of the number of RPSRs subject to a particular award will vest based on actual Company performance during the Performance Period. To the extent that an RPSR vests, the holder will be entitled to receive from the Company an equivalent number of shares of the Company’s common stock, or, in the discretion of the Compensation Committee, cash of equivalent value at the time of vesting or a combination of shares of common stock and cash. RPSRs that vest will be paid in 2014. RPSRs subject to the award will terminate if the holder of the award ceases to be an employee of the Company or one of its
subsidiaries before the end of the Performance Period, unless the holder’s employment terminates due to retirement, death or disability more than six months after the start of the Performance Period, in which case the holder will be entitled to prorated vesting at the end of the Performance Period of the portion of his or her RPSRs that would have vested based on Company performance at the end of the period had his or her employment continued through that time.

The RSR Terms provide that the RSRs will vest, subject to the award holder’s continued employment, on the third anniversary of the grant date. Each vested RSR will be paid within 90 days of vesting in a share of Company common stock, or, in the discretion of the Compensation Committee, cash of equivalent value at the time of vesting or a combination of shares of common stock and cash. RSRs subject to the award will terminate, to the extent not previously vested, if the holder of the award ceases to be an employee of the Company or one of its subsidiaries, unless the holder’s employment terminates due to death or disability, in which case the holder will be entitled to accelerated vesting of the award.

In addition, if the holder of an RPSR or RSR is an elected or appointed officer of the Company on the date the award is paid (or, if earlier, on the date the holder’s employment by the Company and its subsidiaries terminates for any reason), the holder is not permitted to sell or otherwise transfer 50% of the total number of shares of common stock the holder receives in payment of the award until the earlier of (1) the third anniversary of the date such shares of common stock are paid to the holder or (2) the date the holder’s employment by the Company and its subsidiaries terminates due to the holder’s death or disability. If the holder’s employment terminates other than due to death or disability, the holding period requirement will not apply as to any RPSRs that are paid more than one year after the holder’s termination of employment.

The foregoing descriptions of the RPSRs and the RSRs are qualified in their entirety by reference to the full text of the RPSR Terms and the RSR Terms, which are filed as Exhibits 10.8 and 10.9, respectively, to this Current Report on Form 8-K.

Effective March 31, 2011, the Compensation Committee also approved the form of Terms and Conditions applicable to 2011 Stock Options granted under the LTISP (the “Option Terms”). While the Company has not yet granted any stock options, a stock option granted under the LTISP (an “Option”) will be exercisable only to the extent that it has vested and has not expired or terminated. One-third of the total number of shares of common stock subject to an Option will vest and become exercisable upon each of the first, second and third anniversaries of the date of grant. An Option, to the extent not previously exercised, whether vested and exercisable or not, will terminate at the close of business on the last business day preceding the seventh anniversary of the grant date (the “Expiration Date”). An option may terminate prior to the Expiration Date if a holder ceases to be an employee of the Company or one of its subsidiaries.

The Option Terms further provide that any holder of an Option who is an elected or appointed officer of the Company on any date an Option is exercised (or, if earlier, on the date the holder’s employment is terminated for any reason) is not permitted to sell or otherwise transfer 50% of the total number of shares of common stock the holder receives upon any exercise of an Option until the earlier of (1) the third anniversary of the date of exercise or (2) the date the holder’s employment by the Company and its subsidiaries terminates due to the holder’s death or disability. If the holder’s employment terminates other than due to the holder’s death or disability, the holding period will not apply as to any shares acquired upon exercise of an Option to the extent the Option remains exercisable for more than one year after such termination of employment and the applicable Option exercise actually occurs more than one year after such termination of employment.

The foregoing description of the Option Terms is qualified in its entirety by reference to the full text of the Options Terms, which is filed as Exhibit 10.10 to this Current Report on Form 8-K.
ITEM 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

On March 14, 2011, the Board approved the Restated Certificate of Incorporation of the Company (the “Restated Certificate”). The Company’s sole stockholder, Northrop Grumman (formerly New P, Inc.), also approved the Restated Certificate on March 29, 2011. The Restated Certificate, which became effective at 11:59 p.m. on March 30, 2011, is filed as Exhibit 3.1 hereto.

On March 14, 2011, the Board approved the amendment and restatement of the bylaws of the Company (the “Bylaws”). The Bylaws, which became effective at 11:59 p.m. on March 30, 2011, are filed as Exhibit 3.2 hereto.

A description of the material provisions of the Restated Certificate and Bylaws can be found in the section entitled “Description of Capital Stock” in the Information Statement attached hereto as Exhibit 99.1.

ITEM 8.01 Other Events.

On March 31, 2011, Northrop Grumman announced that it had completed the previously announced Spin-Off of the Company. Effective as of 12:01 a.m. Eastern time on the Distribution Date, the common stock of the Company was distributed, on a pro rata basis, to Northrop Grumman’s stockholders of record as of the close of business of the New York Stock Exchange on March 30, 2011 (the “Record Date”). On the Distribution Date, each of Northrop Grumman’s stockholders received one share of common stock of the Company for every six shares of common stock of Northrop Grumman that he, she or it held on the Record Date and will receive cash in lieu of any fractional shares of common stock of the Company. The Spin-Off was completed pursuant to the Separation Agreement.

The Company’s Information Statement, dated March 18, 2011 (the “Information Statement”), which describes for stockholders the details of the distribution and provides information as to the business and management of the Company, is attached hereto as Exhibit 99.1 and is incorporated herein by reference. The Information Statement was first mailed to Northrop Grumman’s stockholders on March 21, 2011.

ITEM 9.01 Financial Statements and Exhibits.

(d) Exhibits

<table>
<thead>
<tr>
<th>Exhibit No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc.</td>
</tr>
<tr>
<td>3.2</td>
<td>Bylaws of Huntington Ingalls Industries, Inc.</td>
</tr>
<tr>
<td>Exhibit No.</td>
<td>Description</td>
</tr>
<tr>
<td>------------</td>
<td>-------------</td>
</tr>
<tr>
<td>10.5</td>
<td>Tax Matters Agreement, dated as of March 29, 2011, among Northrop Grumman Corporation (formerly New P, Inc.), Huntington Ingalls Industries, Inc. and Titan II Inc. (formerly Northrop Grumman Corporation)</td>
</tr>
<tr>
<td>10.7</td>
<td>Terms and Conditions applicable to Non-Employee Director Stock Units Granted Under the 2011 Long-Term Incentive Stock Plan</td>
</tr>
<tr>
<td>10.8</td>
<td>Terms and Conditions Applicable to 2011 Restricted Performance Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan</td>
</tr>
<tr>
<td>10.9</td>
<td>Terms and Conditions Applicable to 2011 Restricted Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan</td>
</tr>
<tr>
<td>10.10</td>
<td>Terms and Conditions Applicable to 2011 Stock Options Granted Under the 2011 Long-Term Incentive Stock Plan</td>
</tr>
<tr>
<td>99.1</td>
<td>Information Statement, dated March 18, 2011</td>
</tr>
</tbody>
</table>
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 hereunto duly authorized.

HUNTINGTON INGALLS INDUSTRIES, INC.

April 4, 2011
(Date)

By: /s/ C. Michael Petters
   (Signature)
   C. Michael Petters
   President and Chief Executive Officer
Huntington Ingalls Industries, Inc. (the “Corporation”), a corporation organized and existing under the General Corporation Law of the State of Delaware (the “DGCL”), does hereby certify as follows:

1. The name of the Corporation is Huntington Ingalls Industries, Inc. The Corporation was originally incorporated under the name New S Holdco, Inc. by the filing of its original certificate of incorporation of the Corporation (the “Original Certificate of Incorporation”) with the office of the Secretary of State of the State of Delaware on August 4, 2010.

2. This Restated Certificate of Incorporation (the “Certificate of Incorporation”), which both restates and integrates and further amends the provisions of the Original Certificate of Incorporation, as amended prior to the effective time of the filing of this Restated Certificate of Incorporation, was duly adopted by the Board of Directors of the Corporation (the “Board of Directors”) and by the sole stockholder of the Corporation in accordance with Sections 228, 242 and 245 of the DGCL.

3. This Restated Certificate of Incorporation shall become effective at 11:59 p.m. (local time in Wilmington, Delaware) on March 30, 2011.

4. The text of the Certificate of Incorporation is hereby amended and restated in its entirety as follows:

**FIRST:** The name of the corporation is Huntington Ingalls Industries, Inc. (the “Corporation”).

**SECOND:** The address of the registered office of the Corporation in the State of Delaware is The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware, 19801. The Corporation’s registered agent at such address is The Corporation Trust Company.

**THIRD:** The purpose of the Corporation is to engage in any lawful act or activity for which corporations may now or hereafter be organized under the General Corporation Law of the State of Delaware.

**FOURTH:**

1. The total number of shares of stock which the Corporation shall have authority to issue is One Hundred Sixty Million (160,000,000), and shall be divided into two classes, consisting of One Hundred Fifty Million (150,000,000) shares of Common Stock, par
The number of authorized shares of Common Stock and Preferred Stock may be increased or decreased, but not below the number of shares of each such respective class then outstanding, in each case by the affirmative vote of a majority in voting power of the capital stock of the Corporation outstanding and entitled to vote thereon, voting as a single class and irrespective of Section 242(b)(2) of the DGCL. Upon the effective time of the filing of the Restated Certificate of Incorporation inserting this sentence, each share of common stock of the Corporation, par value $1.00 per share, outstanding immediately prior to such effective time shall be reclassified and changed into one share of Common Stock of the Corporation, par value $.01 per share.

2. Shares of Preferred Stock may be issued from time to time in one or more series, each of which series shall have such distinctive designation or title as shall be fixed by resolution of the Board of Directors of the Corporation (the “Board of Directors”) (or an authorized committee thereof) prior to the issuance of any shares thereof. Each such series of Preferred Stock shall have such powers (including voting powers, full or limited, or no voting powers), and such designations, preferences and relative, participating, optional or other rights and such qualifications, limitations or restrictions thereof, if any, as shall be fixed from time to time by the Board of Directors (or an authorized committee thereof) prior to the issuance of any shares thereof pursuant to the authority hereby expressly vested in it, all in accordance with the laws of the State of Delaware.

FIFTH: In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors is expressly authorized to adopt, repeal, rescind, alter or amend in any respect the bylaws of the Corporation (the “Bylaws”).

SIXTH: The Bylaws may also be adopted, repealed, rescinded, altered or amended in any respect by the stockholders of the Corporation, but only by the affirmative vote of the holders of not less than a majority in voting power of all outstanding shares of capital stock entitled to vote thereon, voting as a single class, and by the holders of any one or more classes or series of capital stock entitled to vote thereon as a separate class pursuant to one or more resolutions adopted by the Board of Directors (or an authorized committee thereof) in accordance with Section 2 of Article Fourth hereof, provided, however, that in addition to any requirements of law and notwithstanding any other provision of this Certificate of Incorporation or the Bylaws of the Corporation, and notwithstanding any other provision of this Certificate of Incorporation, the Bylaws of the Corporation or any provision of law which might otherwise permit a lesser vote or no vote, the affirmative vote of the holders of at least 662/3% in voting power of the issued and outstanding stock entitled to vote thereon, voting together as a single class, shall be required for the stockholders to amend or repeal, or adopt any provision inconsistent with, Section 2.08, Section 3.02, Section 3.04, Section 3.05, Section 3.06, Section 3.07, Article V and Section 7.04 of the Bylaws of the Corporation.

SEVENTH: The business and affairs of the Corporation shall be managed by and under the direction of the Board of Directors. Except as may otherwise be provided pursuant to Section 2 of Article Fourth hereof in connection with rights to elect additional directors under specified circumstances which may be granted to the holders of any class or series of Preferred Stock, the Board of Directors shall consist of not less than five or more than fifteen members, the exact
number of which will be fixed from time to time exclusively by resolution adopted by the Board of Directors.

EIGHTH:

1. The Board of Directors (other than those directors elected by the holders of any series of Preferred Stock provided for or fixed pursuant to the provisions of Article FOURTH hereof (the “Preferred Stock Directors”)) shall be divided into three classes, designated Class I, Class II and Class III. Class I directors shall initially serve for a term expiring the first annual meeting of stockholders following the effective time of the filing of the Restated Certificate of Incorporation inserting this sentence; Class II directors shall initially serve for a term expiring the second annual meeting of stockholders following such effective time; and Class III directors shall initially serve for a term expiring the third annual meeting of stockholders following such effective time. Commencing with the first annual meeting of stockholders following such effective time, directors of each class the term of which shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting of stockholders held after their election. Subject to any provisions relating to Preferred Stock Directors, directors shall remain in office until the election and qualification of their respective successors in office or until their earlier death, resignation or removal. The Board of Directors is authorized to assign members of the Board of Directors already in office to Class I, Class II or Class III, with such assignment effective as of the effective time of the filing of the Restated Certificate of Incorporation inserting this sentence.

2. Except for such additional directors, if any, as are elected by the holders of any series of Preferred Stock as provided for or fixed pursuant to the provisions of Article FOURTH hereof, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 66 2/3% of the total voting power of the outstanding shares of capital stock of the Corporation entitled to vote thereon, voting together as a single class.

3. Except as otherwise expressly required by law or this Certificate of Incorporation (including any resolution adopted by the Board of Directors (or an authorized committee thereof) fixing the terms of any series of Preferred Stock), (i) a majority of the Whole Board shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, and (ii) the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. “Whole Board” means the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships.

NINTH: Except as may otherwise be provided pursuant to Section 2 of Article Fourth hereof in connection with rights to elect additional directors under specified circumstances which may be granted to the holders of any series of Preferred Stock, newly created directorships resulting from any increase in the authorized number of directors, or any vacancies on the Board of Directors resulting from death, resignation, removal or other causes, shall be filled solely by the affirmative vote of a majority of the remaining directors then in office and entitled to vote thereon, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office for a term expiring at the next election of the class for which such director shall be chosen and shall remain in office until his successor shall be elected.
and qualified or until such director’s death, resignation or removal, whichever first occurs. No decrease in the authorized number of directors shall shorten the term of any incumbent director.

**TENTH:** RESERVED.

**ELEVENTH:** Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual meeting or at a special meeting of stockholders of the Corporation, unless the Board of Directors (or an authorized committee thereof) authorizes such action to be taken by the written consent of the holders of outstanding shares of capital stock having not less than the minimum voting power that would be necessary to authorize or take such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted, provided all other requirements of applicable law and this Certificate of Incorporation have been satisfied.

**TWELFTH:** An annual meeting of the stockholders for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date and at such time as the Board of Directors (or an authorized committee thereof) shall fix. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the Bylaws of the Corporation. The directors of the Corporation need not be elected by written ballot unless the bylaws so provide. Subject to the terms of any class or series of Preferred Stock, special meetings of the stockholders of the Corporation may be called only by the Board of Directors (or an authorized committee thereof) or the Chairperson of the Board of Directors. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation’s notice of meeting.

**THIRTEENTH:** Meetings of stockholders of the Corporation may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Corporation may be kept (subject to any provision of applicable law) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws.

**FOURTEENTH:** The Corporation reserves the right to adopt, repeal, rescind, alter or amend in any respect any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by applicable law, and all rights conferred on stockholders herein are granted subject to this reservation; provided, however, that in addition to any requirements of law and any other provision of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, the affirmative vote of the holders of at least 66 2/3% in voting power of the issued and outstanding stock entitled to vote thereon, voting together as a single class, shall be required to amend or repeal, or adopt any provision inconsistent with, Article Sixth, Article Seventh, Article Eighth, Article Ninth, Article Eleventh, Article Twelfth, Article Fourteenth and Article Fifteenth of this Certificate of Incorporation.

**FIFTEENTH:** A director of the Corporation shall not be personally liable to the Corporation or to its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director’s duty of loyalty to the Corporation or to its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or
a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the
director derives any improper personal benefit. If, after approval of this Article by the stockholders of the Corporation, the General Corporation Law of the
State of Delaware is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation
shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of this Article by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the
Corporation existing at the time of such repeal or modification.
IN WITNESS WHEREOF, this Restated Certificate of Incorporation which restates and integrates and further amends the provisions of the Original Certificate of Incorporation of this Corporation, as amended prior to the effective time of the filing of this Restated Certificate of Incorporation, and which has been duly adopted in accordance with Sections 228, 242 and 245 of the Delaware General Corporation Law, has been executed by its duly authorized officer as of the date set forth below.

HUNTINGTON INGALLS INDUSTRIES, INC.

Date: March 30, 2011

By: /s/ C. Michael Petters
Name: C. Michael Petters
Title: President and Chief Executive Officer
ARTICLE I
OFFICES

Section 1.01 Registered Office. The registered office of Huntington Ingalls Industries, Inc. (the “Corporation”) shall be fixed in the Certificate of Incorporation of the Corporation.

Section 1.02 Principal Executive Office. The principal executive office of the Corporation shall be located at 4101 Washington Avenue, Newport News, Virginia, 23607. The Board of Directors of the Corporation (the “Board of Directors”) may change the location of said principal executive office from time to time.

Section 1.03 Other Offices. The Corporation may also have an office or offices at such other place or places, either within or without the State of Delaware, as the Board of Directors may from time to time determine or as the business of the Corporation may require.

ARTICLE II
MEETINGS OF STOCKHOLDERS

Section 2.01 Annual Meetings. The annual meeting of stockholders of the Corporation shall be held on such date and at such time as the Board of Directors shall determine. At each annual meeting of stockholders, directors shall be elected in accordance with the provisions of Section 3.04 hereof and any proper business may be transacted in accordance with the provisions of Section 2.08 hereof.

Special Meetings. Subject to the terms of any class or series of Preferred Stock, special meetings of the stockholders of the Corporation may be called by the Board of Directors (or an authorized committee thereof) or the Chairperson of the Board of Directors. Except as otherwise required by law or provided by the terms of any class or series of Preferred Stock, special meetings of stockholders of the Corporation may not be called by any other person or persons. Business transacted at any special meeting shall be limited to the purposes stated in the notice of such meeting.

Place of Meetings.

(a) Each annual or special meeting of stockholders shall be held at such location as may be determined by the Board of Directors. Notwithstanding the foregoing, the Board of Directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 2.03(b).
(b) If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxy holders not physically present at a meeting of stockholders may, by means of remote communication:

1. participate in a meeting of stockholders; and
2. be deemed present in person and vote at a meeting of stockholders, whether such meeting is to be held at a designated place or solely by means of remote communication; provided that (A) the Corporation implements reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxy holder, (B) the Corporation implements reasonable measures to provide such stockholders and proxy holders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (C) if any stockholder or proxy holder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action is maintained by the Corporation.

Notice of Meetings.

(c) Unless otherwise required by law, written notice of each annual or special meeting of stockholders stating the date and time when, the place, if any, where it is to be held, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, the information required to gain access to the list of stockholders entitled to vote, if such list is to be open for examination on a reasonably accessible electronic network, and the record date for determining the stockholders entitled to vote at the meeting, if such date is different from the record date for determining the stockholders entitled to notice of the meeting except as otherwise provided herein or required by law. The purpose or purposes for which the meeting is called may, in the case of an annual meeting, and shall, in the case of a special meeting, also be stated. If mailed, notice is given when it is deposited in the United States mail, postage prepaid, directed to a stockholder at such stockholder’s address as it shall appear on the records of the Corporation.

(d) Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under any provision of the DGCL, the Certificate of Incorporation of the Corporation (the “Certificate”) or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholders to whom notice is given, as provided in Section 232 of DGCL. For purposes of these Bylaws, “electronic transmission” means any form of communication not directly involving the physical transmission of paper that
creates a record the recipient may retain, retrieve and review and reproduce in paper form through an automated process.

(e) Without limiting the manner by which notice otherwise may be given effectively to stockholders, notice shall be deemed to have been given to all stockholders of record who share an address if notice is given in accordance with the “householding” rules pursuant to Rule 14a-3(e) under the Securities Exchange Act of 1934, as amended (such act, and the rules and regulations promulgated thereunder, the “Exchange Act”) and Section 233 of the DGCL.

Section 2.02 Waiver of Notice. Whenever notice is required to be given under any provision of the DGCL or the Certificate or these Bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting will constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting need be specified in any written waiver of notice or waiver by electronic transmission unless required by the Certificate.

Section 2.03 Adjourned Meetings. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place, if any, thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than 30 days after the date for which the meeting was originally noticed, then notice of the place, if any, date and time of the adjourned meeting and the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting, shall be given in conformity herewith. If after the adjournment a new record date for stockholders entitled to vote is fixed for the adjourned meeting, the Board of Directors shall fix a new record date for notice of such adjourned meeting in accordance with Section 213(a) of the DGCL, and shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Section 2.04 Conduct of Meetings. All annual and special meetings of stockholders shall be conducted in accordance with such rules and procedures as the Board of Directors may determine subject to the requirements of applicable law and, as to matters not governed by such rules and procedures, as the chairperson of such meeting shall determine. Such rules or procedures, whether adopted by the Board of Directors or prescribed by the chairperson of such meeting, may include without limitation the following: (a) the establishment of an agenda or order of business for the meeting, (b) rules and procedures for maintaining order at the meeting and the safety of those present, (c) limitations on attendance at or participation in the meeting to stockholders of record of the Corporation, their duly authorized and constituted proxies and such other persons as the chairperson of the meeting shall determine, (d) restrictions on entry to the meeting.
after the time fixed for commencement thereof, and (e) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairperson of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

The chairperson of any annual or special meeting of stockholders shall be either the Chairperson of the Board of Directors or any person designated by the Chairperson of the Board of Directors. The Secretary, or in the absence of the Secretary, a person designated by the chairperson of the meeting, shall act as secretary of the meeting.

**Section 2.05 Notice of Stockholder Business and Nominations.** Nominations of persons for election to the Board of Directors and the proposal of business to be transacted by the stockholders may be made at an annual meeting of stockholders only (a) pursuant to the Corporation’s proxy materials with respect to such meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of record of the Corporation (the “Record Stockholder”) at the time of the giving of the notice required in the following paragraph, who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this section. For the avoidance of doubt, the foregoing clause (c) shall be the exclusive means for a stockholder to bring nominations or business (other than business included in the Corporation’s proxy materials pursuant to Rule 14a-8 under the Exchange Act).

For nominations or business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of the foregoing paragraph, (1) the Record Stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, (2) any such business must be a proper matter for stockholder action under applicable law, and (3) the Record Stockholder and the beneficial owner, if any, on whose behalf any such proposal or nomination is made, must have acted in accordance with the representations set forth in the Solicitation Statement required by these Bylaws. To be timely, a Record Stockholder’s notice shall be received by the Secretary at the principal executive offices of the Corporation not less than 90 or more than 120 days prior to the one-year anniversary (the “Anniversary”) of the date on which the Corporation first mailed its proxy materials; provided, however, that if the annual meeting is convened more than 30 days prior to or delayed by more than 30 days after the Anniversary of the preceding year’s annual meeting, or if no annual meeting was held in the preceding year, notice by the Record Stockholder to be timely must be so received not later than the close of business on the later of (i) the 135th day before such annual meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. Notwithstanding anything in the preceding sentence to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board made by the Corporation at least 10 days before the last day a Record Stockholder may deliver a notice of nomination in accordance with the preceding sentence, a Record Stockholder’s notice required by this bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day
following the day on which such public announcement is first made by the Corporation. In no event shall an adjournment of an annual meeting, or the postponement of an annual meeting for which notice has been given, commence a new time period for the giving of a stockholder's notice as described herein.

Such Record Stockholder’s notice shall set forth: (a) if such notice pertains to the nomination of directors, as to each person whom the Record Stockholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Exchange Act and such person’s written consent to serve as a director if elected; (b) as to any business that the Record Stockholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any substantial interest (within the meaning of Item 5 of Schedule 14A under the Exchange Act) in such business of such Record Stockholder and the beneficial owner (within the meaning of Section 13(d) of the Exchange Act), if any, on whose behalf the proposal is made; and (c) as to (1) the Record Stockholder giving the notice and (2) the beneficial owner, if any, on whose behalf the nomination or proposal is made (each, a “party”) (i) the name and address of each such party, as they appear on the Corporation’s books; (ii) the class, series and number of shares of the Corporation that are owned beneficially and of record by each such party (which information set forth in this clause shall be supplemented by such stockholder or such beneficial owner, as the case may be, not later than 10 days after the record date for determining the stockholders entitled to notice of the meeting to disclose such ownership as of such record date); (iii) a description of any agreement, arrangement or understanding with respect to the nomination between or among such stockholder and such beneficial owner, any of their respective affiliates or associates, and any others acting in concert with any of the foregoing; (iv) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, warrants, stock appreciation or similar rights, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the stockholder’s notice by, or on behalf of, such Record Stockholder or such beneficial owners, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of, such stockholder and such beneficial owner, with respect to shares of stock of the Corporation (which information set forth in this clause shall be supplemented by such party not later than 10 days after the record date for determining the stockholders entitled to notice of the meeting to disclose such ownership as of such record date); (v) any other information relating to each such party that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act; (vi) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote at such meeting; and (vii) a statement whether or not each such party will deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of voting power of all of the shares of capital stock of the Corporation required under applicable law to carry the proposal or, in the case of a nomination or nominations, at least the percentage of voting power of all of the shares of capital stock of the Corporation reasonably believed by the Record Stockholder or the
beneficial holder, as the case may be, to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder and/or intends otherwise to solicit proxies from stockholders in support of such proposal or nomination (such statement, a “Solicitation Statement”).

Only persons nominated in accordance with the procedures set forth in this Section 2.08 shall be eligible to serve as directors and only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.08. The chairperson of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defectively proposed business or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting in accordance with Section 2.02. The notice of such special meeting shall include the purpose for which the meeting is called. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (a) by or at the direction of the Board of Directors or (b) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of record of the Corporation at the time of giving of notice provided for in this paragraph, who shall be entitled to vote in the election of directors and who delivers a written notice to the Secretary setting forth the information set forth in clauses (a) and (c) of the third paragraph of this Section 2.08. Nominations by stockholders of persons for election to the Board of Directors may be made at a special meeting of stockholders only if such stockholder’s notice required by the preceding sentence shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the later of the 135th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall an adjournment of a special meeting, or a postponement of a special meeting for which a notice has been given, commence a new time period for the giving of a record stockholder’s notice. A person shall not be eligible for election or reelection as a director at a special meeting unless the person is nominated (i) by or at the direction of the Board of Directors or (ii) by a record stockholder in accordance with the notice procedures set forth in this Section 2.08.

For purposes of this section, “public announcement” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.
Notwithstanding the foregoing provisions of this Section 2.08, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 2.08. Nothing in this Section 2.08 shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation’s proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 2.06 Quorum. At any meeting of stockholders, the presence, in person or by proxy, of the holders of record of a majority of the voting power of the shares then issued and outstanding and entitled to vote at the meeting shall constitute a quorum for the transaction of business. Where a separate vote by a class or classes or series is required, the holders of a majority of the voting power of the shares of such class or classes or series then issued and outstanding and entitled to vote on such matter present in person or represented by proxy shall constitute a quorum with respect to the vote on that matter. In the absence of a quorum, the chairperson of the meeting may adjourn the meeting from time to time. At any reconvened meeting following such an adjournment at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting.

Section 2.07 Votes Required. When a quorum is present at a meeting, a matter submitted for stockholder action shall be approved if the votes cast “for” the matter exceed the votes cast “against” such matter, unless a greater or different vote is required by statute, any applicable law or regulation (including the applicable rules of any stock exchange), the rights of any authorized class of stock, the Certificate or these Bylaws. Unless the Certificate or a resolution of the Board of Directors adopted in connection with the issuance of shares of any class or series of stock provides for a greater or lesser number of votes per share, or limits or denies voting rights, each outstanding share of stock, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders.

Section 2.08 Proxies. A stockholder may vote the shares owned of record by such stockholder either in person or by proxy in any manner permitted by law, including by execution of a proxy in writing or by telex, telegram, cable, facsimile or electronic transmission, by the stockholder or by the duly authorized officer, director, employee or agent of such stockholder. No proxy shall be voted or acted upon after 3 years from its date, unless the proxy provides for a longer period. A duly executed proxy will be irrevocable if it states it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation generally.

Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to this paragraph may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.
Section 2.09 Stockholder Action. Any action required or permitted to be taken by the stockholders of the Corporation must be effected at a duly called annual meeting or special meeting of stockholders of the Corporation, unless the Board of Directors authorizes such action to be taken by the written consent of the holders of outstanding shares of stock having not less than the minimum voting power that would be necessary to authorize or take such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted, provided all other requirements of applicable law and the Certificate have been satisfied.

Section 2.10 List of Stockholders. The Secretary of the Corporation shall, in the manner provided by law, prepare and make (or cause to be prepared and made) a complete list of stockholders entitled to vote at any meeting of stockholders, provided, however, that if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the list shall reflect the stockholders entitled to vote as of the 10th day before the meeting date, arranged in alphabetical order and showing the address of, and the number of shares registered in the name of, each stockholder. Nothing contained in this section shall require the Corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, for a period of at least 10 days prior to the meeting in the manner provided by law. A list of the stockholders entitled to vote at the meeting shall also be produced and kept at the time and place, if any, of the meeting during the duration thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list will also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list will be provided with the notice of the meeting.

The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the list of stockholders or to vote in person or by proxy at any meeting of stockholders.

Section 2.11 Inspectors of Election. In advance of any meeting of stockholders, the Board of Directors may appoint Inspectors of Election to act at such meeting or at any adjournment or adjournments thereof. The Corporation may designate one or more alternate inspectors to replace any inspector who fails to act. If such inspectors are not so appointed or fail or refuse to act, the chairperson of any such meeting may (and, to the extent required by law, shall) make such an appointment. The number of Inspectors of Election shall be 1 or 3. If there are 3 Inspectors of Election, the decision, act or certificate of a majority shall be effective and shall represent the decision, act or certificate of all. No such inspector need be a stockholder of the Corporation. Each inspector, before entering upon the discharge of the duties of inspector, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector's ability.

The Inspectors of Election shall have such duties and responsibilities as required under Section 231 of the DGCL (or any successor provision thereof).
ARTICLE III
DIRECTORS

Section 3.01 Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

Section 3.02 Number. Except as otherwise fixed pursuant to the provisions of Section 2 of Article Fourth of the Certificate in connection with rights to elect additional directors under specified circumstances which may be granted to the holders of any class or series of Preferred Stock, the Board of Directors shall consist of not less than five or more than fifteen members, and the exact number of directors of the Corporation shall be fixed from time to time exclusively by a resolution duly adopted by the Board of Directors.

Section 3.03 Lead Independent Director. At any time the Chairperson of the Board of Directors is not independent as that term is defined under the then applicable rules and regulations of each national securities exchange upon which shares of the stock of the Corporation are listed for trading and of the Securities and Exchange Commission, the independent directors may designate from among them a Lead Independent Director having the duties and responsibilities set forth in the applicable rules of each such national securities exchange and as otherwise determined by the Board of Directors from time to time.

Section 3.04 Election and Term of Office. Except as provided in Section 3.07 hereof and subject to the right to elect additional directors under specified circumstances which may be granted, pursuant to the provisions of Section 2 of Article Fourth of the Certificate, to the holders of any class or series of Preferred Stock, directors shall be elected by a plurality of the shares present and entitled to vote at the stockholders’ annual meeting.

Section 3.05 Resignations. Any director may resign at any time by submitting a resignation to the Corporation in writing or by electronic transmission. Such resignation shall take effect at the time of its receipt by the Corporation unless such resignation is effective at a future time or upon the happening of a future event or events in which case it shall be effective at such time or upon the happening of such event or events. Unless the resignation provides otherwise, the acceptance of a resignation shall not be required to make it effective.

Section 3.06 Removal. Any director may be removed from office as set forth in the Certificate of Incorporation.

Section 3.07 Vacancies and Additional Directorships. Except as otherwise provided pursuant to Section 2 of Article Fourth of the Certificate in connection with rights to elect additional directors under specified circumstances which may be granted to the holders of any class or series of Preferred Stock, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board of
Directors resulting from death, resignation, disqualification, removal or other cause shall be filled solely by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office until the next election of the class for which such director shall be chosen and until his successor shall be elected and qualified or until such director’s death, resignation or removal, whichever first occurs. No decrease in the authorized number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 3.08 Meetings. Promptly after, and on the same day as, each annual election of directors by the stockholders, the Board of Directors shall, if a quorum be present, meet in a meeting (the “Organizational Meeting”) to elect a Chairperson of the Board of Directors, elect a Lead Independent Directors, if any, appoint members of the standing committees of the Board of Directors, elect officers of the Corporation and conduct other business as appropriate. Additional notice of such meeting need not be given if such meeting is conducted promptly after the annual meeting to elect directors and if the meeting is held in the same location where the election of directors was conducted. Regular meetings of the Board of Directors shall be held at such times and places as the Board of Directors shall determine and as shall be publicized among all directors.

Directors may participate in regular or special meetings of the Board of Directors or any committee designated by the Board of Directors by means of conference telephone or other communications equipment by means of which all other persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 3.09 Notice of Meetings. A notice of each regular meeting of the Board of Directors shall not be required. A special meeting of the Board of Directors may be called by the Chairperson of the Board of Directors, the Chief Executive Officer or a majority of the directors then in office and shall be held at such place, if any, on such date and at such time as the person or persons calling such meeting may fix. Notice of special meetings shall be either (i) mailed to each director at least 5 days before the meeting, addressed to the director’s usual place of business or to his or her residence address or to an address specifically designated by the director or (ii) given by telephone, telegraph, telex, facsimile or electronic transmission not less than 24 hours before the meeting. The notice need not specify the place of the meeting (if the meeting is to be held at the Corporation’s principal executive office) nor the purpose of the meeting, unless otherwise required by law. Unless otherwise indicated in the notice of a meeting, any and all business may be transacted at a meeting of the Board of Directors. Notice of any meeting may be waived in writing, or by electronic transmission, at any time before or after the meeting, and attendance of any director at a meeting shall constitute a waiver of notice of such meeting, except when the director attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting need be specified in any written waiver of notice or waiver by electronic transmission, unless required by the Certificate.
Section 3.10 Action without Meeting. Unless otherwise restricted by the Certificate, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, or by electronic transmission and such writing or writings or electronic transmission are filed with the minutes of the proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 3.11 Quorum. Except as otherwise provided by law, the Certificate or these Bylaws, at all meetings of the Board of Directors, a majority of the Whole Board shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. “Whole Board” means the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships. In the absence of a quorum, the directors present, by majority vote and without notice or waiver thereof, may adjourn the meeting to another date, place, if any, and time. At any reconvened meeting following such an adjournment at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 3.12 Votes Required. Except as otherwise required by applicable law, the Certificate or these Bylaws, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors.

Section 3.13 Place and Conduct of Meetings. Other than the Organizational Meeting, each meeting of the Board of Directors shall be held at the location determined by the person or persons calling such meeting. At any meeting of the Board of Directors, business shall be transacted in such order and manner as the Board of Directors may from time to time determine. The chairperson of any regular or special meeting shall be the Chairperson of the Board of Directors, or in the absence of the Chairperson a person designated by the Board of Directors. The Secretary, or in the absence of the Secretary a person designated by the chairperson of the meeting, shall act as secretary of the meeting.

Section 3.14 Fees and Compensation. Directors shall be paid such compensation as may be fixed from time to time by resolutions of the Board of Directors. Compensation may be in the form of an annual retainer fee or a fee for attendance at meetings, or both, or in such other form or on such basis as the resolutions of the Board of Directors shall fix. Directors shall be reimbursed for all reasonable expenses incurred by them in attending meetings of the Board of Directors and committees appointed by the Board of Directors and in performing compensable extraordinary services. Nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity, such as an officer, agent, employee, consultant or otherwise, and receiving compensation therefor.

Section 3.15 Committees of the Board of Directors. The Board of Directors may, by resolution, from time to time designate committees of the Board of Directors, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board of Directors and shall, for those committees and any others
provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of any committee and any alternate member in his or her place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 3.16 Meetings of Committees. Each committee of the Board of Directors shall fix its own rules of procedure and shall act in accordance therewith, except as otherwise provided herein or required by applicable law and any resolutions of the Board of Directors governing such committee. A majority of the members of each committee shall constitute a quorum thereof, except that when a committee consists of one or two members then one member shall constitute a quorum.

Section 3.17 Subcommittees. Unless otherwise provided in the Certificate or the resolutions of the Board of Directors establishing a committee, or in the charter of a committee, a committee may create one or more subcommittees, which consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee.

ARTICLE IV
OFFICERS

Section 4.01 Designation, Election and Term of Office. The Corporation shall have a Chief Executive Officer, a Secretary and a Treasurer and such other officers as the Board of Directors deems appropriate, including to the extent deemed appropriate by the Board of Directors, a President, a Chief Financial Officer, a Chief Legal Officer and one more Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. These officers shall be elected annually by the Board of Directors at the Organizational Meeting immediately following the annual meeting of stockholders and each such officer shall hold office until a successor is elected or until his or her earlier resignation, death or removal. Any vacancy in any of the above offices may be filled for an unexpired portion of the term by the Board of Directors at any meeting thereof. The Chief Executive Officer may, by a writing filed with the Secretary, designate titles for employees and agents, as, from time to time, may appear necessary or advisable in the conduct of the affairs of the Corporation and, in the same manner, terminate or change such titles.

Section 4.02 Chairperson of the Board of Directors. The Board of Directors shall designate the Chairperson of the Board of Directors from among its members. The Chairperson of the Board of Directors shall preside at all meetings of the Board of Directors, and shall perform such other duties as shall be delegated to him or her by the Board of Directors.
Section 4.03 Chief Executive Officer. Subject to the direction of the Board of Directors, the Chief Executive Officer shall be responsible for the general supervision, direction and control of the business and affairs of the Corporation.

Section 4.04 President. The President shall perform such duties and have such responsibilities as may from time to time be delegated or assigned to him or her by the Board of Directors or the Chief Executive Officer.

Section 4.05 Chief Financial Officer. The Chief Financial Officer of the Corporation shall be responsible to the Chief Executive Officer for the management and supervision of all financial matters and to provide for the financial growth and stability of the Corporation. The Chief Financial Officer shall also perform such additional duties as may be assigned to the Chief Financial Officer from time to time by the Board of Directors or the Chief Executive Officer.

Section 4.06 Chief Legal Officer. The Chief Legal Officer of the Corporation shall be the General Counsel who shall be responsible to the Chief Executive Officer for the management and supervision of all legal matters. The Chief Legal Officer shall also perform such additional duties as may be assigned to the Chief Legal Officer from time to time by the Board of Directors or the Chief Executive Officer.

Section 4.07 Secretary. The Secretary shall keep the minutes of the meetings of the stockholders, the Board of Directors and all committee meetings. The Secretary shall be the custodian of the corporate seal and shall affix it to all documents that the Secretary is authorized by law or the Board of Directors to sign and seal. The Secretary also shall perform such other duties as may be assigned to the Secretary from time to time by the Board of Directors or the Chief Executive Officer.

Section 4.08 Treasurer. The Treasurer shall be accountable to the Chief Financial Officer, and shall perform such duties as may be assigned to the Treasurer from time to time by the Board of Directors, the Chief Executive Officer, the Chief Financial Officer or the Senior Vice President, Finance.

Section 4.09 Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. Executive vice presidents, senior vice presidents, vice presidents and other officers of the Corporation that are elected by the Board of Directors shall perform such duties as may be assigned to them from time to time by the Chief Executive Officer.

Section 4.10 Appointed Officers. The Board of Directors or the Chief Executive Officer may appoint one or more Corporate Staff Vice Presidents, officers of groups or divisions or assistant secretaries, assistant treasurers and such other assistant officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as may be specified from time to time by the Board of Directors or the Chief Executive Officer.

Section 4.11 Absence or Disability of an Officer. In the case of the absence or disability of an officer of the Corporation, the Board of Directors, or any officer designated by it, or the Chief Executive Officer may, for the time of the absence or
disability, delegate such officer’s duties and powers to any other officer of the Corporation.

Section 4.12 Officers Holding Two or More Offices. The same person may hold any two or more of the above-mentioned offices except that the Secretary shall not be the same person as the Chief Executive Officer or the President.

Section 4.13 Compensation. The Board of Directors shall have the power to fix the compensation of all officers and employees of the Corporation and to delegate such power to a committee of the Board of Directors.

Section 4.14 Resignations. Any officer may resign at any time by submitting a resignation to the Corporation in writing or by electronic transmission. Any such resignation shall take effect at the time of receipt by the Corporation unless such resignation is effective at a future time or upon the happening of a future event or events, in which case it shall be effective at such time or upon the happening of such event or events. Unless the resignation provides otherwise, the acceptance of a resignation shall not be required to make it effective.

Section 4.15 Removal. The Board of Directors may remove any elected officer of the Corporation, with or without cause. Any appointed officer of the Corporation may be removed, with or without cause, by the Chief Executive Officer or the Board of Directors.

Section 4.16 Delegation of Authority. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officer, employee or agent, notwithstanding any provisions hereof.

ARTICLE V

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND AGENTS

Section 5.01 Right to Indemnification. Each person who was or is made a party, or is threatened to be made a party, to any actual or threatened action, suit, or proceeding, whether civil, criminal, administrative, or investigative (hereinafter a “proceeding”), by reason of the fact that (i) he or she is or was a director, officer, employee, or agent of the Corporation or (ii) he or she is or was serving at the request of the Board of Directors or an executive officer (as such term is defined in Section 16 of the Exchange Act) of the Corporation as a director, officer, employee, agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an “indemnitee”) shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended, or by other applicable law as then in effect, against all expense, liability, and loss (including attorneys’ fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid in settlement) actually and
reasonably incurred or suffered by such indemnitee in connection therewith. The right to indemnification provided by this Article shall apply whether or not the basis of such proceeding is alleged action in an official capacity as such director, officer, employee or agent or in any other capacity while serving as such director, officer, employee or agent. Notwithstanding anything in this Section 5.01 to the contrary, except as provided in Section 5.03 with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors.

Section 5.02 Advancement of Expenses. The right to indemnification conferred in Section 5.01, shall include the right to have the expenses incurred in defending or preparing for any such proceeding in advance of its final disposition (hereinafter an “advancement of expenses”) paid by the Corporation; provided, however, that if the DGCL requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is to be rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking containing such terms and conditions, including the requirement of security, as the Board of Directors deems appropriate (hereinafter an “undertaking”), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Article or otherwise. The Corporation shall not be obligated to advance fees and expenses to a director, an officer, employee or agent in connection with a proceeding instituted by the Corporation against such person.

Section 5.03 Right of Indemnitee to Bring Suit. If a claim under Section 5.01 or 5.02 is not paid in full by the Corporation within 60 calendar days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses under Section 5.02, in which case the applicable period shall be 30 calendar days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If the indemnitee is successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that the indemnitee has not met any applicable standard of conduct for indemnification set forth in the DGCL, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard of conduct for indemnification set forth in the DGCL. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the
applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article V or otherwise shall be on the Corporation.

Section 5.04 Nonexclusivity of Rights.

(a) The rights to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any law, provisions of the Certificate, Bylaw, agreement, vote of stockholders or disinterested directors, or otherwise.

(b) The Corporation may maintain insurance, at its expense, to protect itself and any past or present director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL. The Corporation may enter into contracts with any indemnitee in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

(c) The Corporation may without reference to Sections 5.01 through 5.04 (a) and (b) hereof, pay the expenses, including attorneys’ fees, incurred by any director, officer, employee or agent of the Corporation who is subpoenaed, interviewed or deposed as a witness or otherwise incurs expenses in connection with any civil, arbitration, criminal or administrative proceeding or governmental or internal investigation to which the Corporation is a party, target, or potentially a party or target, or of any such individual who appears as a witness at any trial, proceeding or hearing to which the Corporation is a party, if the Corporation determines that such payments will benefit the Corporation and if, at the time such expenses are incurred by such individual and paid by the Corporation, such individual is not a party, and is not threatened to be made a party, to such proceeding or investigation.

Section 5.05 Additional Indemnification of Employees and Agents of the Corporation. The Corporation may grant additional rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent permitted by the law. The Corporation may, by action of its Board of Directors, authorize one or more officers to grant rights of indemnification or the advancement of
expenses to employees or agents of the Corporation on such terms and conditions as the officers deem appropriate.

Section 5.06 Nature of Rights. The rights conferred upon indemnitees in this Article V shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer or trustee and shall inure to the benefit of the indemnitee’s heirs, executors and administrators. Any amendment, alteration or repeal of this Article V that adversely affects any right of an indemnitee or its successors shall be prospective only and shall not limit or eliminate any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment or repeal.

ARTICLE VI
STOCK

Section 6.01 Shares of Stock. The Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of the capital stock of the Corporation shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation (or, if such certificate has been lost, stolen or destroyed, the procedures required by the Corporation in Section 6.07 shall have been followed). To the extent shares of capital stock are represented by certificates, such certificates shall be signed by the Chairperson of the Board of Directors, the President or a vice president, together with the Secretary or assistant secretary, or the Treasurer or assistant treasurer. Any or all of the signatures on any certificate may be facsimile. A stockholder that holds a certificate representing shares of any class or series of the capital stock of the Corporation for which the Board of Directors has authorized uncertificated shares may request that the Corporation cancel such certificate and issue such shares in an uncertificated form, provided that the Corporation shall not be obligated to issue any uncertificated shares of capital stock to such stockholder until such certificate representing such shares of capital stock shall have been surrendered to the Corporation (or, if such certificate has been lost, stolen or destroyed, the procedures required by the Corporation in Section 6.07 shall have been followed).

With respect to certificated shares of capital stock, the Secretary or an assistant secretary of the Corporation or the transfer agent thereof shall mark every certificate exchanged, returned or surrendered to the Corporation with “Cancelled” and the date of cancellation.

In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. The Corporation shall not have power to issue a certificate in bearer form.
If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and
relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such
preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class
or series of stock, provided that, except as otherwise provided in Section 6.04 or Section 202 of the DGCL, in lieu of the foregoing requirements, there may be
set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will
furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional, or other special rights
of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. In the case of uncertificated shares,
within a reasonable time after the issuance or transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice
containing the information required to be set forth or stated on certificates pursuant to this section, Sections 6.02(b), 6.04 and 6.05 of these Bylaws and
Sections 156, 202(a) and 218(a) of the DGCL, or with respect to this section and Section 151 of the DGCL a statement that the Corporation will furnish
without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each
class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Issuance of Stock; Lawful Consideration.

(a) Shares of stock may be issued for such consideration, having a value not less than the par value thereof, as determined from time to time by the Board of
Directors. Treasury shares may be disposed of by the Corporation for such consideration as may be determined from time to time by the Board of Directors.
The consideration for subscriptions to, or the purchase of, the capital stock to be issued by the Corporation shall be paid in such form and in such manner as
the Board of Directors shall determine. The Board of Directors may authorize capital stock to be issued for consideration consisting of cash, any tangible or
intangible property or any benefit to the Corporation, or any combination thereof. In the absence of actual fraud in the transaction, the judgment of the Board
of Directors as to the value of such consideration shall be conclusive. The capital stock so issued shall be deemed to be fully paid and nonassessable stock
upon receipt by the Corporation of such consideration; provided, however, nothing contained herein shall prevent the Board of Directors from issuing partly
paid shares in accordance with Section 6.02(b) and Section 156 of the DGCL.

(b) The Corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid
therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the Corporation in
the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the
declaration of any dividend on fully paid shares, the Corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis
of the percentage of the consideration actually paid thereon.
Section 6.02 Transfer Agents and Registrars. The Corporation may have one or more transfer agents and one or more registrars of its stock whose respective duties the Board of Directors or the Secretary may, from time to time, define. No certificate of stock shall be valid until countersigned by a transfer agent, if the Corporation has a transfer agent, or until registered by a registrar, if the Corporation has a registrar. The duties of transfer agent and registrar may be combined.

Section 6.03 Restrictions on Transfer and Ownership of Securities. A written restriction or restrictions on the transfer or registration of transfer of a security of the Corporation, or on the amount of the Corporation’s securities that may be owned by any person or group of persons, if permitted by Section 202 of the DGCL and noted conspicuously on the certificate or certificates representing the security or securities so restricted or, in the case of uncertificated shares, contained in the notice or notices sent pursuant to Section 6.02 of these Bylaws and Section 151(f) of the DGCL, may be enforced against the holder of the restricted security or securities or any successor or transferee of the holder including an executor, administrator, trustee, guardian or other fiduciary entrusted with like responsibility for the person or estate of the holder. Unless noted conspicuously on the certificate or certificates representing the security or securities so restricted or, in the case of uncertificated shares, contained in the notice or notices sent pursuant to Section 6.02 of these Bylaws and Sections 151(f) of the DGCL, a restriction, even though permitted by Section 202 of the DGCL, is ineffective except against a person with actual knowledge of the restriction.

Section 6.04 Voting Trusts and Voting Agreements. One stockholder or two or more stockholders may by agreement in writing deposit capital stock of the Corporation of an original issue with or transfer capital stock of the Corporation to any person or persons, or any entity or entities authorized to act as trustee, for the purpose of vesting in such person or persons, entity or entities, who may be designated voting trustee, or voting trustees, the right to vote thereon for any period of time determined by such agreement, upon the terms and conditions stated in such agreement. The agreement may contain any other lawful provisions not inconsistent with such purpose. After the filing of a copy of the agreement in the registered office of the Corporation in the State of Delaware, which copy shall be open to the inspection of any stockholder of the Corporation or any beneficiary of the trust under the agreement daily during business hours, certificates of stock or uncertificated stock shall be issued to the voting trustee or trustees to represent any stock of an original issue so deposited with such voting trustee or trustees, and any certificates of stock or uncertificated stock so transferred to the voting trustee or trustees shall be surrendered and cancelled and new certificates or uncertificated stock shall be issued therefor to the voting trustee or trustees. In the certificate so issued, if any, it shall be stated that it is issued pursuant to such agreement, and that fact shall also be stated in the stock ledger of the Corporation. The voting trustee or trustees may vote the stock so issued or transferred during the period specified in the agreement. Stock standing in the name of the voting trustee or trustees may be voted either in person or by proxy, and in voting the stock, the voting trustee or trustees shall incur no responsibility as stockholder, trustee or otherwise, except for their own individual malfeasance. In any case where two or more persons or entities are designated as voting trustees, and the right and method of voting any stock standing in their names at
any meeting of the Corporation are not fixed by the agreement appointing the trustees, the right to vote the stock and the manner of voting it at the meeting shall be determined by a majority of the trustees, or if they be equally divided as to the right and manner of voting the stock in any particular case, the vote of the stock in such case shall be divided equally among the trustees.

**Section 6.05 Transfer of Shares.** Registration of transfer of shares of stock of the Corporation may be effected on the books of the Corporation in the following manner:

(a) **Certificated Shares.** In the case of certificated shares, upon authorization by the registered holder of share certificates representing such shares of stock, or by his attorney authorized by a power of attorney duly executed and filed with the Secretary or with a designated transfer agent or transfer clerk, and upon surrender to the Corporation or any transfer agent of the corporation of the certificate being transferred, which certificate shall be properly and fully endorsed or accompanied by a duly executed stock transfer power, and otherwise in proper form for transfer, and the payment of all transfer taxes thereon. Whenever a certificate is endorsed by or accompanied by a stock power executed by someone other than the person or persons named in the certificate, evidence of authority to transfer shall also be submitted with the certificate. Notwithstanding the foregoing, such surrender, proper form for transfer or payment of taxes shall not be required in any case in which the officers of the Corporation determine to waive such requirement.

(b) **Uncertificated Shares.** In the case of uncertificated shares of stock, upon receipt of proper and duly executed transfer instructions from the registered holder of such shares, or by his attorney authorized by a power of attorney duly executed and filed with the Secretary or with a designated transfer agent or transfer clerk, the payment of all transfer taxes thereon, and compliance with appropriate procedures for transferring shares in uncertificated form. Whenever such transfer instructions are executed by someone other than the person or persons named in the books of the Corporation as the holder thereof, evidence of authority to transfer shall also be submitted with such transfer instructions. Notwithstanding the foregoing, such payment of taxes or compliance shall not be required in any case in which the officers of the Corporation determine to waive such requirement.

No transfer of shares of capital stock shall be made on the books of this Corporation if such transfer is in violation of a lawful restriction noted conspicuously on the certificate. No transfer of shares of capital stock shall be valid as against the Corporation for any purpose until it shall have been entered in the stock records of the Corporation by an entry showing from and to whom transferred.

**Section 6.06 Lost, Stolen or Destroyed Share Certificates.** The Corporation may issue a new certificate of stock or uncertificated shares in place of any certificate previously issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner’s legal representative, to give the Corporation a bond sufficient to indemnify it.
against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares; but the Corporation, in its discretion, may refuse to issue a new certificate of stock unless the Corporation is ordered to do so by a court of competent jurisdiction.

Section 6.07 Stock Ledgers. Original or duplicate stock ledgers, containing the names and addresses of the stockholders of the Corporation and the number of shares of each class of stock held by them, shall be kept at the principal executive office of the Corporation or at the office of its transfer agent or registrar.

Section 6.08 Record Dates. In order that the Corporation may determine the stockholders entitled to notice of any meeting of stockholders or any adjournment thereof, the Board of Directors may, except as otherwise required by law, fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If the Board of Directors so fixes a date, such date shall also be the record date for determining the stockholders entitled to vote at such meeting unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of and to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and, for determining stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or to exercise any rights of change, conversion or exchange of stock or for any other purpose, the record date shall be at the close of business on the day on which the Board of Directors adopts a resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for determining the stockholders entitled to vote at the adjourned meeting, and in such case shall also fix as the record date for stockholders entitled to notice of such adjourned meeting the same or an earlier date as that fixed for determining the stockholders entitled to vote at such adjourned meeting in accordance with the foregoing provisions of this Section 6.09 at the adjourned meeting.

In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall not be more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.
ARTICLE VII
SUNDRY PROVISIONS

Section 7.01 Fiscal Year. The fiscal year of the Corporation shall end on the 31st day of December of each year.

Section 7.02 Seal. The seal of the Corporation shall bear the name of the Corporation and the words “Delaware” and “Incorporated August 4, 2010.”

Section 7.03 Voting of Stock in Other Corporations. Any shares of stock in other corporations or associations, which may from time to time be held by the Corporation, may be represented and voted in person or by proxy, at any of the stockholders’ meetings thereof by the Chief Executive Officer or the designee of the Chief Executive Officer. The Board of Directors, however, may by resolution appoint some other person or persons to vote such shares, in which case such person or persons shall be entitled to vote such shares.

Section 7.04 Amendments. These Bylaws may be adopted, repealed, rescinded, altered or amended only as provided in Articles Fifth and Sixth of the Certificate.

Section 7.05 Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or by means of, or be in the form of, any information storage device, or method provided that the records so kept can be converted into clearly legible paper form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect such records under the DGCL.

As amended, March 30, 2011.
SEPARATION AND DISTRIBUTION AGREEMENT
among
NORTHROP GRUMMAN CORPORATION,
NEW P, INC.,
HUNTINGTON INGALLS INDUSTRIES, INC.,
NORTHROP GRUMMAN SHIPBUILDING, INC.,
and
NORTHROP GRUMMAN SYSTEMS CORPORATION
Dated as of March 29, 2011
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Annex I — Internal Reorganization

iii
SEPARATION AND DISTRIBUTION AGREEMENT


RECITALS

A. NGC, acting through itself and its direct and indirect Subsidiaries (as defined below), currently conducts the Shipbuilding Business (as defined below) and the Retained Business (as defined below).

B. The NGC Board (as defined below) has determined that it is appropriate, desirable and in the best interests of NGC and its stockholders to separate NGC into two publicly traded companies: (a) HII, which following the Distribution (as defined below) will own and conduct, directly and indirectly, the Shipbuilding Business; and (b) New NGC, which following the Distribution will own and conduct, directly and indirectly, the Retained Business.

C. Prior to the date of this Agreement, NGC formed New NGC as a wholly owned direct Subsidiary, HII as a wholly owned direct subsidiary of New NGC, and Titan Merger Sub Inc., a Delaware corporation and a wholly owned indirect Subsidiary of New NGC (“Merger Sub”).

D. Prior to the Distribution, Merger Sub will merge with and into NGC in a merger pursuant to Section 251(g) of the Delaware General Corporation Law, with NGC as the surviving entity and renamed “Titan II Inc.” and with New NGC renamed “Northrop Grumman Corporation” (the “Holding Company Reorganization”).

E. After the Holding Company Reorganization and prior to the Distribution, the parties will complete the Internal Reorganization (as defined below).

F. On the Distribution Date (as defined below) and subject to the terms and conditions of this Agreement, New NGC shall distribute to the Record Holders (as defined below), on a pro rata basis, all the outstanding shares of common stock, par value $.01 per share, of HII (“HII Common Stock”) owned by New NGC on the Distribution Date (the “Distribution”).

G. The parties intend that, for U.S. federal income tax purposes, the Holding Company Reorganization, the Internal Reorganization, and the Distribution shall qualify for Tax-Free Status (as defined below) pursuant to Sections 351, 355, 361, 368(a) and related provisions of the Code (as defined below).
AGREEMENT

In consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties agree as follows:

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Section 1.1 Table of Definitions. The following terms have the meanings set forth on the pages referenced below:

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Section 1.2 Certain Defined Terms. For the purposes of this Agreement:

“Action” means any claim, demand, action, suit, countersuit, audit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority or any United States or non-United States federal, state, local or international arbitration or mediation tribunal.
“Affiliate” of any Person means a Person that controls, is controlled by, or is under common control with such Person; provided, however, that for purposes of this Agreement and the Ancillary Agreements, none of the New NGC Entities shall be deemed to be an Affiliate of any HII Entity and none of the HII Entities shall be deemed to be an Affiliate of any New NGC Entity. As used herein, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities or other interests, by contract or otherwise.

“Agent” means the distribution agent to be appointed by the New NGC Board to distribute to the Record Holders the shares of HII Common Stock pursuant to the Distribution.

“Allocation Committee” means a committee composed of one representative designated from time to time by each of New NGC and HII that shall be established in accordance with Section 6.2.

“Ancillary Agreements” means the Employee Matters Agreement, the Ingalls Indemnity Agreement, the Insurance Matters Agreement, the IP License Agreement, the Litigation Management Agreement, the P&I Agreements, the Tax Matters Agreement, the Transition Services Agreement and any other instruments, assignments, documents and agreements executed in connection with the implementation of the transactions contemplated by this Agreement, including the Internal Reorganization.

“Applicable HII Proportion” means the proportion of a Shared Gain or a Shared Liability, as applicable, that relates to the Shipbuilding Business. With respect to any Shared Liability identified on Schedule 1.1(a)(1) or any Shared Gain identified on Schedule 1.1(a)(2), the Applicable HII Proportion shall be as set forth under the heading “Applicable HII Proportion” opposite such matter on such Schedule. With respect to any other Shared Liability or Shared Gain, the Applicable HII Proportion shall be the extent to which such Shared Liability or Shared Gain relates to the Shipbuilding Business and shall be determined in accordance with Section 6.2(b).

“Applicable New NGC Proportion” means the proportion of a Shared Gain or a Shared Liability, as applicable, that relates to the Retained Business. With respect to any Shared Liability identified on Schedule 1.1(a)(1) or any Shared Gain identified on Schedule 1.1(a)(2), the Applicable New NGC Proportion shall be as set forth under the heading “Applicable New NGC Proportion” opposite such matter on such Schedule. With respect to any other Shared Liability or Shared Gain, the Applicable New NGC Proportion shall be the extent to which such Shared Liability or Shared Gain relates to the Retained Business and shall be determined in accordance with Section 6.2(b).

“Applicable Proportion” means (a) as to New NGC, the Applicable New NGC Proportion, and (b) as to HII, the Applicable HII Proportion.

“Assets” means all assets, properties and rights (including goodwill), wherever located (including in the possession of vendors or other third parties or
elsewhere), whether real, personal or mixed, tangible, intangible, corporeal, incorporeal or contingent, in each case whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person, including the following:

(a) all accounting and other books, records and files whether in paper, microfilm, microfiche, computer tape or disc, magnetic tape or any other form;

(b) all apparatus, computers and other electronic data processing equipment, fixtures, machinery, equipment, furniture, office equipment, automobiles, trucks, aircraft, motor vehicles and other transportation equipment, special and general tools, test devices, prototypes and models and other tangible personal property;

(c) all inventories of materials, parts, supplies, raw materials, work-in-process and finished goods and products;

(d) all interests in real property of whatever nature, including easements and rights of way, whether as owner, mortgagee or holder of a Security Interest in real property, lessor, sublessor, lessee, sublessee or otherwise, and copies of all related documentation;

(e) all interests in any capital stock or other equity, partnership, membership, joint venture or similar interests of any Subsidiary or any other Person, all bonds, notes, debentures or other securities issued by any Subsidiary or any other Person, all loans, advances or other extensions of credit or capital contributions to any Subsidiary or any other Person and all other investments in securities of any Person;

(f) all license agreements, leases of personal property, open purchase orders for raw materials, supplies, parts or services, unfilled orders for the manufacture and sale of products and other contracts, agreements or commitments;

(g) all deposits, letters of credit, guarantees and performance and surety bonds;

(h) all recorded scientific and technical information, data, specifications, research and development information, engineering drawings, operating and maintenance manuals, studies, reports, discoveries, ideas, concepts, know-how, techniques, designs, blueprints, diagrams, models, prototypes, samples, and materials and analyses regardless of the form or method of the recording whether prepared by a party’s employees or on behalf of a party by consultants and other third parties;

(i) all domestic and foreign patents, copyrights, trade names, trademarks, service marks and registrations and applications for any of the foregoing, mask works, trade secrets, inventions, other proprietary information and licenses from third parties granting the right to use any of the foregoing;

(j) all computer applications, programs and other software, including operating software, network software, firmware, middleware, design software, design
tools, systems documentation, flow charts, instructions, source code, listings, object code listings, design details, algorithms, processes, flow charts, formulae, and related material that would enable the software to be reproduced, recreated or recompiled, and computer databases;

(k) all cost information, sales and pricing data, customer prospect lists, supplier records, customer and supplier lists, records pertaining to customers and customer accounts, customer and vendor data, correspondence and lists, product literature, artwork, design, development and manufacturing files, vendor and customer drawings, formulations and specifications, quality records and reports and other books, records, studies, surveys, reports, plans and documents, in whatever form;

(l) all prepaid expenses, trade accounts and other accounts and notes receivable;

(m) all rights under contracts, options or agreements, all claims or rights against any Person arising from the ownership of any Asset, all rights in connection with any bids or offers and all claims, choses in action or similar rights, whether accrued or contingent;

(n) all insurance proceeds and rights under Insurance Policies and all rights in the nature of insurance, indemnification or contribution;

(o) all licenses, permits, approvals and authorizations that have been issued by any Governmental Authority and all pending applications therefor;

(p) all cash or cash equivalents, bank accounts, lock boxes and other deposit arrangements;

(q) copies of all documentation related to Insurance Policies;

(r) all interests in any public grants and subsidies of any kind received or applied for; and

(s) all interest rate, currency, commodity or other swap, collar, cap or other hedging or similar agreements or arrangements.

“Assigned Action” has the meaning set forth in the Litigation Management Agreement.

“Business Day” means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

“Change of Control” means the occurrence of any of the following after the Distribution: (a) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of HII and its Subsidiaries taken as a whole to any person (as used in Section 13(d)(3) of the Exchange Act) or group of related persons
for purposes of Section 13(d) of the Exchange Act other than HII or one of its Subsidiaries; (b) the approval by the holders of HII’s common stock of any plan or proposal for the liquidation or dissolution of HII or HII’s approval or making of any bankruptcy filing; (c) the consummation of any transaction (including any merger or consolidation) the result of which is that any person (as used in Section 13(d)(3) of the Exchange Act) or group of related persons for purposes of Section 13(d) of the Exchange Act other than HII or one of its Subsidiaries becomes the beneficial owner, directly or indirectly, of more than 50% of the then outstanding number of shares of HII voting stock; or (d) the first day on which a majority of the members of HII’s board of directors are not Continuing Directors.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and a Rating Event.

“Code” means the Internal Revenue Code of 1986, as amended and as in effect for the relevant period in question.

“Consents” means any consents, waivers or approvals from, or notification requirements to, any Person other than a member of either Group.

“Continuing Director” means, as of any date of determination, any member of the board of directors of HII who (a) was a member of such board of directors as of the Distribution; or (b) was nominated for election or elected to such board of directors with the approval of a majority of the Continuing Directors who were members of such board of directors at the time of such nomination or election (either by a specific vote or by approval of the proxy statement in which such member was named as a nominee for election as a director, without objection to such nomination).

“Credit Support Instruments” means surety bonds, covenants, indemnities, undertakings, letters of credit or similar assurances or other credit support.

“Determination Request” means a written request made to the Allocation Committee for a determination as to whether a Third-Party Claim specified in such request constitutes a Shared Liability or whether any potential gain or right specified in such request constitutes a Shared Gain.

“Distribution Date” means the date, determined by the Northrop Grumman Board, on which the Distribution occurs.

“Distribution Ratio” means the number of shares of HII Common Stock to be distributed in respect of each share of New NGC Common Stock in the Distribution, which ratio shall be determined by the New NGC Board prior to the Record Date.

“Employee Matters Agreement” means the Employee Matters Agreement, dated as of the date hereof, among NGC, New NGC and HII, as may be amended or modified from time to time.

“Environmental Laws” means all federal, state, local and foreign Laws, including all judicial and administrative orders, determinations, and consent agreements or
“Environmental Liabilities” means any Liabilities arising out of or relating to the environment, human health, any Environmental Law, Hazardous Substances or exposure to Hazardous Substances, pollutants, contaminants or other harmful substances, including (a) fines, penalties, judgments, awards, settlements, losses, damages (including consequential damages), costs, fees (including attorneys’ and consultants’ fees), expenses and disbursements, (b) costs of defense and other responses to any administrative or judicial action (including notices, claims, complaints, suits and other assertions of liability), (c) responsibility for any investigation, remediation, monitoring or cleanup costs, injunctive relief, tort claims, natural resource damages, and any other environmental compliance or remedial measures, in each case known or unknown, foreseen or unforeseen, and (d) any claims, suits or actions (whether third-party or otherwise) for any Liability, including personal injury or property damage.


“Excluded Retained Assets” means the Assets listed or described on Schedule 1.1(a)(3).

“Excluded Shipbuilding Assets” means:
(a) the Assets listed or described on Schedule 1.1(a)(4);
(b) the New NGC Transferred Assets; and
(c) the Transferred Debt Proceeds.

“Fitch” means Fitch Ratings Ltd.

“Form 10” means the registration statement on Form 10 filed by HII with the SEC to effect the registration of HII Common Stock pursuant to the Exchange Act in connection with the Distribution, as such registration statement may be amended or supplemented from time to time, including any amendment or supplement thereto.

“Former Business” means any corporation, partnership, entity, division, business unit or business, including any business within the meaning of Rule 11-01(d) of Regulation S-X (in each case, including any Assets and Liabilities comprising the same) (as used in this definition of “Former Business,” a “Business”) that has been sold, conveyed, assigned, transferred or otherwise disposed of or divested (in whole or in part) to a Person that is not a member of the New NGC Group or the HII Group or the operations, activities or production of which has been discontinued, abandoned, completed
or otherwise terminated (in whole or in part), in each case prior to the Distribution. For the avoidance of doubt, any Business that has been sold, conveyed, assigned, transferred or otherwise disposed of or divested (in whole or in part) by a member of one Group to a member of the other Group shall not be deemed a Former Business of the first Group if such Business has subsequently been sold, conveyed, assigned, transferred or otherwise disposed of or divested (in whole or in part by a member of the second Group) to any Person that is not a member of the New NGC Group or the HII Group.


“Governmental Approvals” means any notices, reports or other filings to be given to or made with, or any releases, Consents, substitutions, approvals, amendments, registrations, permits or authorizations to be obtained from, any Governmental Authority.

“Governmental Authority” means any United States or non-United States federal, state, local, territorial, tribal or international court, government, department, commission, board, bureau, agency, official or other legislative, judicial, regulatory, administrative or governmental authority.

“Group” means the New NGC Group or the HII Group, as the context requires.

“Hazardous Substances” means all materials, wastes or substances defined by, or regulated under, any Environmental Laws now or in the future and any substance that can give rise to any claim, suit or action (whether third-party or otherwise) for any Liabilities, including personal injury or property damage.

“HII Assigned Action” has the meaning set forth in the Litigation Management Agreement.

“HII Balance Sheet” means the audited pro forma consolidated balance sheet of HII, including the notes thereto, as of December 31, 2010, included in the Information Statement.

“HII Credit Facility” means the credit facility to be entered into prior to the Distribution between HII, as borrower, and an agent or co-agents pursuant to which HII may borrow funds.

“HII Debt” means the debt issued by HII pursuant to a Rule 144A offering to be completed prior to the Internal Reorganization and the term loan debt under the HII Credit Facility.

“HII Entities” means the members of the HII Group.

“HII Group” means HII and each Person that will be a direct or indirect Subsidiary of HII immediately prior to the Distribution (but after giving effect to the
Internal Reorganization) and each Person that is or becomes a member of the HII Group after the Distribution, including in all circumstances the predecessor and successor entities of HII or each such other Person. For the purposes of this Agreement and the Ancillary Agreements, New NGC shall not be deemed to be a successor entity of NGC.

“HII Transferred Assets” means those Assets of NGC (but not the Assets of any of its Subsidiaries) that are listed on Schedule 1.1(a)(5).

“Information” means information, including books and records, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including studies, reports, records, books, contracts, instruments, surveys, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, computer data, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names, communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), and other technical, financial, employee or business information or data.

“Information Statement” means the Information Statement, attached as an exhibit to the Form 10, to be sent to each holder of New NGC Common Stock in connection with the Distribution, as such Information Statement may be amended from time to time, including any amendment or supplement thereto.

“Ingalls Indemnity Agreement” means the Ingalls Guaranty Performance, Indemnity and Termination Agreement, dated as of the date hereof, among HII, NGRB and NGSC, as may be amended or modified from time to time.

“Insurance Matters Agreement” means the Insurance Matters Agreement, dated as of the date hereof, among NGC, New NGC and HII, as may be amended or modified from time to time.

“Insurance Policies” has the meaning set forth in the Insurance Matters Agreement.

“Insurance Proceeds” means, with respect to any Liability to be reimbursed by an Indemnifying Party that may be covered, in whole or in part, by Insurance Policies written by third-party providers, the amount of insurance proceeds actually received in cash under such Insurance Policy with respect to such Liability, net of any taxes and costs in seeking such collection.

“Internal Reorganization” means the transactions described in Annex I.

“IP License Agreement” means the Intellectual Property License Agreement, dated as of the date hereof, between NGSC and NGSB, as may be amended or modified from time to time.

“IRS Ruling” has the meaning set forth in the Tax Matters Agreement.
“Law” means any statute, law, regulation, ordinance, rule, judgment, rule of common law, order, decree, government approval, concession, grant, franchise, license, agreement, directive, guideline, policy, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, whether now or hereinafter in effect and, in each case, as amended.

“Liabilities” means any and all losses, claims, charges, debts, demands, Actions, damages, obligations, payments, costs and expenses, sums of money, bonds, indemnities and similar obligations, penalties, covenants, contracts, controversies, agreements, promises, omissions, guarantees, make whole agreements and similar obligations, and other liabilities, including all contractual obligations, whether absolute or contingent, inchoate or otherwise, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising, and including those arising under any Law, Action, threatened or contemplated Action (including the costs and expenses of demands, assessments, judgments, settlements and compromises relating thereto and attorneys’ fees and any and all costs and expenses (including allocated costs of in-house counsel and other personnel), whatsoever incurred in investigating, preparing or defending against any such Actions or threatened or contemplated Actions), order or consent decree of any Governmental Authority or any award of any arbitrator of any kind, and those arising under any contract, commitment or undertaking, including those arising under this Agreement or any Ancillary Agreement or incurred by a party hereto or thereto in connection with enforcing its rights to indemnification hereunder or thereunder, in each case, whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person.

“Litigation Management Agreement” means the Litigation Management and Coordination Agreement, dated as of the date hereof, among NGC, New NGC, HII, NGSB and NGSC, as may be amended or modified from time to time.

“Moody’s” means Moody’s Investors Service, Inc.

“Navy Guarantees” means (a) the Performance Guaranty, dated as of April 11, 2002, by NGC, as guarantor, to the United States of America, Naval Sea Systems Command as beneficiary, (b) the Performance Guaranty, dated 2006, by NGC, as guarantor, to the United States of America, Naval Sea Systems Command as beneficiary, (c) the Performance Guaranty, dated as of April 24, 2007, by NGC, as guarantor, to the United States of America, Naval Sea Systems Command as beneficiary and (d) any other similar guarantee pursuant to which NGC has guaranteed the performance of NGSB (or an Affiliate) under shipbuilding construction contracts with the United States Department of the Navy or a command or other division thereof.

“New NGC Assigned Action” has the meaning set forth in the Litigation Management Agreement.

“New NGC Board” means the board of directors of New NGC or an authorized committee thereof.
“New NGC Common Stock” means the common stock, par value $1.00 per share, of New NGC.

“New NGC Entities” means the members of the New NGC Group.

“New NGC Group” means New NGC and each Person that will be a direct or indirect Subsidiary of New NGC immediately after the Distribution and each Person that is or becomes a member of the New NGC Group after the Distribution, including in all circumstances the predecessor and successor entities of New NGC or each such other Person. For the purposes of this Agreement and the Ancillary Agreements, NGC shall not be deemed to be a predecessor entity of New NGC.

“New NGC Transferred Assets” means all of the Assets of NGC (but not the Assets of any of its Subsidiaries) including those Assets listed or described on Schedule 1.1(a)(6), other than (a) the HII Transferred Assets and (b) the capital stock in NGSC and NGSB.

“NGC Board” means the board of directors of NGC or an authorized committee thereof.

“NGTS” means Northrop Grumman Technical Services, Inc., an Oklahoma corporation, member of the New NGC Group and party to the Teaming Agreement.

“Non-Managing Party” means, as between HII and New NGC, the party that is not the Managing Party with respect to any Shared Gain or Shared Liability.

“Northrop Grumman” means (a) at all times prior to the effectiveness of the Holding Company Reorganization, NGC, and (b) at all times at or after the effectiveness of the Holding Company Reorganization, New NGC.

“Northrop Grumman Board” means (a) at all times prior to the effectiveness of the Holding Company Reorganization, the NGC Board, and (b) at all times at or after the effectiveness of the Holding Company Reorganization, the New NGC Board.

“Northrop Grumman Stockholders” means (a) at all times prior to the effectiveness of the Holding Company Reorganization, the stockholders of NGC, and (b) at all times at or after the effectiveness of the Holding Company Reorganization, the stockholders of New NGC.

“NYSE” means the New York Stock Exchange.

“Opinion” has the meaning set forth in the Tax Matters Agreement.

“P&I Agreements” means the Performance and Indemnity Agreements, to be executed and delivered in connection with the Internal Reorganization, between HII and NGC, as may be amended or modified from time to time.
“Person” means an individual, corporation, partnership, limited liability company, limited liability partnership, syndicate, person, trust, association, organization or other entity, including any Governmental Authority, and including any successor, by merger or otherwise, of any of the foregoing.

“Rating Agencies” means (a) each of Fitch, Moody’s and S&P and (b) if Fitch, Moody’s and S&P all cease to rate HII or all fail to make a rating of HII publicly available for reasons outside of HII’s control, a “nationally recognized statistical rating organization” within the meaning of Rule 15c3-1(c)(2)(vi) (F) under the Exchange Act, selected by HII (as certified by a resolution of the board of directors of HII) as a replacement agency.

“Rating Event” means HII’s corporate rating is downgraded to “B” or “B2” or below, as applicable, by any of the Rating Agencies on any date from and after the date of the public notice of an arrangement that could result in a Change of Control until the end of the 60-day period following public notice of the consummation of the Change of Control (which 60-day period shall be extended so long as the rating of HII is under publicly announced consideration for possible downgrade by any of the Rating Agencies).

“Record Date” means the close of business on the date determined by the New NGC Board as the record date for determining the stockholders of New NGC entitled to receive shares of HII Common Stock in the Distribution. The Record Date shall occur after completion of the Holding Company Reorganization.

“Record Holders” means the holders of New NGC Common Stock on the Record Date.

“Retained Assets” means:

(a) the Assets listed or described on Schedule 1.1(a)(7), the New NGC Transferred Assets and all other Assets that are expressly and specifically provided in this Agreement or any Ancillary Agreement as Assets to be transferred to New NGC or any other member of the New NGC Group;

(b) all interests in the capital stock of, or any other equity, partnership, membership, joint venture or similar interests in, the Subsidiaries of New NGC (other than any member of the HII Group) immediately prior to the Distribution (after giving effect to the Internal Reorganization) and any capital stock of, or equity, partnership, membership, joint venture or similar interests in, any other Person (other than any member of the HII Group) owned by any member of the New NGC Group immediately prior to the Distribution (after giving effect to the Internal Reorganization);

(c) any recovery or other Assets (net of any expenses) received by any member of either Group with respect to any New NGC Assigned Action;

(d) the Applicable New NGC Proportion of any Shared Gain; and
(e) all other Assets owned or held immediately prior to the Distribution (after giving effect to the Internal Reorganization) by New NGC or any of its Subsidiaries (including for the avoidance of doubt, HII and its Subsidiaries) that are not Shipbuilding Assets, including the Transferred Debt Proceeds.

Notwithstanding the foregoing, the Retained Assets shall not include any items expressly governed by the Tax Matters Agreement or the Excluded Retained Assets. In the event of any inconsistency or conflict that may arise in the application or interpretation of any of the foregoing provisions, for the purpose of determining what is and is not a Retained Asset, any item explicitly included on a Schedule referred to in this definition of “Retained Assets” shall take priority over any provision of the text hereof.

“Retained Business” means:

(a) any businesses or operations conducted by any member of the New NGC Group (other than any businesses or operations to the extent conducted through the ownership of, on behalf of or for the benefit of any member of the HII Group prior to the Distribution), including any Former Business of any member of the New NGC Group and any Former Business of NGC that is not also a Former Business of any other member of the HII Group, in all cases including those businesses set forth on Schedule 1.1(a)(8), but excluding those businesses set forth on Schedule 1.1(a)(9);

(b) the businesses or operations, including Former Businesses, conducted by any member of the HII Group (including NGC) prior to the Distribution to the extent that they do not relate to the Shipbuilding Business; and

(c) any other businesses or operations conducted through the use of the Retained Assets to the extent that they do not relate to the Shipbuilding Business.

“Retained Liabilities” means:

(a) all of the following Liabilities:

(i) the Liabilities listed or described on Schedule 1.1(a)(10);

(ii) all other Liabilities that are expressly and specifically provided by this Agreement as Liabilities to be wholly assumed by New NGC or any member of the New NGC Group, and all obligations of New NGC or any other member of the New NGC Group under this Agreement or any of the Ancillary Agreements;

(iii) all other Liabilities that are both wholly unrelated to the Shipbuilding Business and are not otherwise Shipbuilding Liabilities; and

(b) the Applicable New NGC Proportion of any Shared Liability.

Notwithstanding the foregoing, the Retained Liabilities shall not include any items expressly governed by the Tax Matters Agreement or the Ingalls Indemnity Agreement.

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In the event of any inconsistency or conflict that may arise in the application or interpretation of any of the foregoing provisions, for the purpose of determining what is and is not a Retained Liability, any item explicitly included on a Schedule referred to in this definition of “Retained Liabilities” shall take priority over any provision of the text hereof.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“SEC” means the Securities and Exchange Commission.

“Security Interest” means any mortgage, security interest, pledge, lien, charge, claim, option, right to acquire, voting or other restriction, right-of-way, covenant, condition, easement, encroachment, restriction on transfer, or other encumbrance of any nature whatsoever.

“Separation” means (a) the Internal Reorganization, (b) any other actions to be taken pursuant to Article II and (c) any other transfers of Assets and assumptions of Liabilities, in each case, between a member of one Group and a member of the other Group, provided for in this Agreement or any Ancillary Agreement.

“Shared Action” has the meaning set forth in the Litigation Management Agreement.

“Shared Gain” means any claim or right of a member of the New NGC Group or the HII Group, whenever discovered, against any Person (other than a member of the New NGC Group or the HII Group) that relates to both the Retained Business and the Shipbuilding Business or is listed or described on Schedule 1.1(a)(11), other than any claim or right described on Schedule 1.1(a)(12), in all cases to the extent that such claim or right accrued as of the Distribution or relates to events or circumstances that occurred or existed prior to the Distribution. Notwithstanding anything to the contrary in this definition of “Shared Gain,” Shared Gains shall not include any Settlement Assets, which shall be governed by Section 8.7, or any claims or rights related to, attributable to or arising in connection with Taxes or Tax Returns, which are expressly governed by the Tax Matters Agreement.

“Shared Liability” means any of the following:

(a) any Liability that relates to both the Shipbuilding Business and the Retained Business and that is not listed in a subclause of clause (a) of the definition of “Shipbuilding Liabilities;” and

(b) any Liability listed or described on Schedule 1.1(a)(13).

Notwithstanding anything to the contrary in this definition of “Shared Liability,” Shared Liabilities shall not include any Settlement Liabilities, which shall be governed by Section 8.7, or any Liabilities related to, attributable to or arising in
connection with Taxes or Tax Returns, which are expressly governed by the Tax Matters Agreement.

“Shipbuilding Assets” means:

(a) the Assets listed or described on Schedule 1.1(a)(14) the HII Transferred Assets and all other Assets that are expressly and specifically provided in this Agreement or any Ancillary Agreement as Assets to be transferred to HII or any other member of the HII Group;

(b) all interests in the capital stock of, or any other equity, partnership, membership, joint venture or similar interests in, the Subsidiaries of HII immediately prior to the Distribution (after giving effect to the Internal Reorganization) and any capital stock of, or equity, partnership, membership, joint venture or similar interests in, any other Person owned by any member of the HII Group immediately prior to the Distribution (after giving effect to the Internal Reorganization);

(c) all Assets reflected as assets of HII and the other members of the HII Group on the HII Balance Sheet and any Assets acquired by or for HII or any other member of the HII Group subsequent to the date of the HII Balance Sheet that, had they been acquired on or before such date and owned as of such date, would have been reflected on the HII Balance Sheet if prepared on a consistent basis, subject to any dispositions of any such Assets subsequent to the date of the HII Balance Sheet;

(d) any recovery or other Assets (net of any Taxes and expenses) received by any member of either Group in any HII Assigned Action;

(e) all other Assets not expressly covered in clauses (a) through (d) of this definition of “Shipbuilding Assets” that are wholly owned immediately prior to the Distribution (after giving effect to the Internal Reorganization) by HII or any of its Subsidiaries;

(f) all patents, copyrights, trade secrets, know-how and other confidential and proprietary information and all other intellectual property rights, whether arising under the laws of the United States or the laws of any other jurisdiction, and all registrations and applications for registration of any of the foregoing, that were created, devised or otherwise developed (i) exclusively by the HII Employees and HII Retirees (each as defined in the Employee Matters Agreement) (other than any of the foregoing that were developed specifically for the Retained Business) or (ii) in whole or in part, by employees of any member of the New NGC Group or third parties exclusively for the Shipbuilding Business, whether or not such intellectual property rights had been assigned to NGC during its ownership of the Shipbuilding Business; and

(g) the Applicable HII Proportion of any Shared Gain.

Notwithstanding the foregoing, the Shipbuilding Assets shall not include any items expressly governed by the Tax Matters Agreement or the Excluded Shipbuilding Assets. In the event of any inconsistency or conflict that may arise in the application or
interpretation of any of the foregoing provisions, for the purpose of determining what is and is not a Shipbuilding Asset, any item explicitly included on a Schedule referred to in this definition of “Shipbuilding Assets” shall take priority over any provision of the text hereof.

“Shipbuilding Business” means:

(a) any businesses or operations conducted by any member of the HII Group (other than any businesses or operations to the extent conducted through the ownership of, on behalf of or for the benefit of any member of the New NGC Group prior to the Distribution), including the businesses and operations that are described in the Information Statement and any Former Business of any member of the HII Group (other than NGC and not any other entity), in each case including those businesses set forth on Schedule 1.1(a)(9), but excluding those businesses set forth on Schedule 1.1(a)(8);

(b) any other businesses or operations (including joint ventures) conducted through the use of or with the Shipbuilding Assets;

(c) the HII Employees and HII Retirees and any other person employed by any member of the HII Group after the Distribution; and

(d) the businesses or operations, including Former Businesses, conducted by NGC (but not any other entity) or any member of the New NGC Group prior to the Distribution, in all cases to the extent that they relate to the businesses or operations and Former Businesses described in clauses (a) through (c) of this definition of “Shipbuilding Business.”

“Shipbuilding Liabilities” means:

(a) all of the following Liabilities:

(i) the Liabilities listed or described on Schedule 1.1(a)(15);

(ii) all other Liabilities that are expressly provided by this Agreement or any Ancillary Agreement as Liabilities to be wholly assumed by HII or any other member of the HII Group, and all obligations of HII or any other member of the HII Group under this Agreement or any of the Ancillary Agreements;

(iii) all Liabilities reflected as liabilities or obligations on the HII Balance Sheet, and all Liabilities arising or assumed after the date of the HII Balance Sheet that, had they arisen or been assumed on or before such date and been existing obligations as of such date, would have been reflected on the HII Balance Sheet if prepared on a consistent basis, subject to any discharge of such Liabilities subsequent to the date of the HII Balance Sheet;

(iv) all Environmental Liabilities relating to (A) the use of any property by the Shipbuilding Business at any time, regardless of whether such property is or is not owned or leased by HII or any of its Subsidiaries or Affiliates (including any
properties set forth on Schedule 1.1(a)(16), including any property where the Shipbuilding Business contracted or arranged for disposal of wastes at any time whatsoever, or (B) the operation or conduct of the Shipbuilding Business or activities related to the Shipbuilding Business (including all Liabilities relating to any Shipbuilding Asset or any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person’s authority) which act or failure to act relates to the Shipbuilding Business);

(v) all Liabilities relating to the HII Employees and HII Retirees and any person employed by any member of the HII Group after the Distribution, and the conduct of all such persons;

(vi) all Liabilities relating to the use of any property by the Shipbuilding Business at any time, regardless of whether such property is or is not owned or leased by HII or any of its Subsidiaries or Affiliates (including any properties set forth on Schedule 1.1(a)(16)), including any property where the Shipbuilding Business contracted or arranged for disposal of wastes at any time whatsoever;

(vii) all Liabilities relating to the Navy Guarantees, including all Liabilities that NGC or any other party to this Agreement (including their Subsidiaries and Affiliates) has or may be found to have under or in any way in connection with the Navy Guarantees;

(viii) all other Liabilities relating to the operation or conduct of the Shipbuilding Business or activities related to the Shipbuilding Business (including all Liabilities relating to any Shipbuilding Asset or any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person’s authority) which act or failure to act relates to the Shipbuilding Business) that do not also relate to the operation or conduct of the Retained Business; and

(ix) all other Liabilities that are wholly unrelated to the Retained Business and that are not otherwise Retained Liabilities; and

(b) the Applicable HII Proportion of any Shared Liability.

Notwithstanding the foregoing, the Shipbuilding Liabilities shall not include any items expressly governed by the Tax Matters Agreement or the Ingalls Indemnity Agreement.

In the event of any inconsistency or conflict that may arise in the application or interpretation of any of the foregoing provisions, for the purpose of determining what is and is not a Shipbuilding Liability, any item explicitly included on a Schedule referred to in this definition of “Shipbuilding Liabilities” shall take priority over any provision of the text hereof.

“Subsidiary” of any Person means any corporation or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of
the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries; provided, however, that no Person that is not directly or indirectly wholly owned by any other Person shall be a Subsidiary of such other Person unless such other Person controls, or has the right, power or ability to control, that Person.

“Tax-Free Status” has the meaning set forth in the Tax Matters Agreement.

“Tax Matters Agreement” means the Tax Matters Agreement, dated as of the date hereof, among New NGC, HII and NGC, as may be amended or modified from time to time.

“Tax” has the meaning set forth in the Tax Matters Agreement.

“Team” has the meaning set forth in the Teaming Agreement.

“Teaming Agreement” means the teaming agreement listed on Schedule 1.1(a)(17).

“Transition Services Agreement” means the Transition Services Agreement, dated as of the date hereof, among NGSC, NGSB, New NGC and HII, as may be amended or modified from time to time.

ARTICLE II
THE SEPARATION

Section 2.1 Internal Reorganization; Transfer of Assets and Assumption of Liabilities

(a) Prior to the Distribution, the parties shall cause the Internal Reorganization to be completed.

(b) Prior to the Distribution, the parties shall, and shall cause their respective Subsidiaries to, (i) execute such instruments of assignment and transfer and take such other corporate actions as are necessary to transfer to one or more members of the HII Group all of the right, title and interest of the New NGC Group in and to all Shipbuilding Assets after giving effect to the Internal Reorganization and (ii) take all actions necessary to cause one or more members of the HII Group to assume all of the Shipbuilding Liabilities to the extent such Shipbuilding Liabilities would otherwise remain obligations of any member of the New NGC Group after giving effect to the Internal Reorganization.

(c) Prior to the Distribution, the parties shall, and shall cause their respective Subsidiaries to, (i) execute such instruments of assignment and transfer and take such other corporate actions as are necessary to transfer to one or more members of the New NGC Group all of the right, title and interest of the HII Group in and to all Retained Assets after giving effect to the Internal Reorganization and (ii) take all actions necessary to cause one or more members of the New NGC Group to assume all of the Retained
Liabilities to the extent such Retained Liabilities would otherwise remain obligations of any member of the HII Group after giving effect to the Internal Reorganization.

Section 2.2 Governmental Approvals and Consents; Transfers, Assignments and Assumptions Not Effected Prior to the Distribution.

(a) To the extent that any of the transactions contemplated by this Agreement or any Ancillary Agreement requires any Governmental Approval or Consent, the parties will use their reasonable best efforts to obtain such Governmental Approval or Consent.

(b) To the extent that any transfer or assignment of Assets or assumption of Liabilities contemplated by this Agreement or any Ancillary Agreement shall not have been consummated prior to the Distribution, the parties shall use reasonable best efforts to effect such transfers as promptly following the Distribution as shall be practicable. Nothing herein shall be deemed to require the transfer of any Assets or the assumption of any Liabilities that by their terms or operation of law cannot or should not be transferred. In the event that any such transfer of Assets or assumption of Liabilities has not been consummated, from and after the Distribution until such time as such Asset is transferred or such Liability is assumed (i) the party retaining such Asset shall thereafter hold such Asset for the use and benefit of the party entitled thereto (at the expense of the party entitled thereto) and (ii) the party intended to assume such Liability shall, or shall cause the applicable member of its Group to, pay or reimburse the party retaining such Liability for all amounts paid or incurred in connection with the retention of such Liability. In addition, the party retaining such Asset or Liability shall, insofar as reasonably practicable and to the extent permitted by applicable Law, treat such Asset or Liability in the ordinary course of business consistent with past practice and take such other actions as may be reasonably requested by the party entitled to such Asset or by the party intended to assume such Liability in order to place such party, insofar as reasonably practicable, in the same position as if such Asset or Liability had been transferred or assumed as contemplated hereby and so that all the benefits and burdens relating to such Asset or Liability, including possession, use, risk of loss, potential for gain, and control over such Asset or Liability, are to inure from and after the Distribution to the member or members of the New NGC Group or the HII Group entitled to such Asset or intended to assume such Liability. In furtherance of the foregoing, the parties agree that, as of the Distribution, each party shall be deemed to have acquired beneficial ownership over all of the Assets, together with all rights and privileges incident thereto, and shall be deemed to have assumed all of the Liabilities, and all duties, obligations and responsibilities incident thereto, that such party is entitled to acquire or intended to assume pursuant to the terms of this Agreement or the applicable Ancillary Agreement.

(c) If and when the Consents, Governmental Approvals and/or conditions, the absence or non-satisfaction of which caused the deferral of transfer or assignment of any Asset or the deferral of the assumption of any Liability pursuant to Section 2.2(b) are obtained or satisfied, the transfer or assumption of the applicable Asset or Liability shall be effected in accordance with and subject to the terms of this Agreement or the applicable Ancillary Agreement.
(d) The party retaining any Asset or Liability due to the deferral of the transfer of such Asset or the deferral of the assumption of such Liability pursuant to Section 2.2(b) or otherwise shall not be obligated, in connection with the foregoing, to expend any money unless the necessary funds are advanced or agreed to be reimbursed by the party entitled to such Asset or the party intended to assume such Liability. The party retaining such Asset or Liability shall use its reasonable best efforts timely to notify the party entitled to such Asset or intended to assume such Liability of the need for such expenditure.

(e) The parties agree to treat, for U.S. federal, state and local income tax purposes, any Asset or Liability that is not transferred prior to the Distribution and is subject to the provisions of Section 2.2(b) as owned by the member of the Group to which such Asset or Liability was intended to be transferred from and after the Distribution, and shall not take any position inconsistent therewith unless otherwise required by applicable Law.

Section 2.3 Termination of Agreements

(a) Except as set forth in Section 2.3(b), the HII Entities, on the one hand, and the New NGC Entities, on the other hand, hereby terminate any and all agreements, arrangements, commitments or understandings (including intercompany work orders), whether or not in writing, between or among any HII Entity, on the one hand, and any New NGC Entity, on the other hand, effective as of the Distribution. No such terminated agreement, arrangement, commitment or understanding (including any provision thereof that purports to survive termination) shall be of any further force or effect from and after the Distribution. Each party shall, at the reasonable request of any other party, take, or cause to be taken, such other actions as may be necessary to effect the foregoing.

(b) The provisions of Section 2.3(a) shall not apply to any of the following agreements, arrangements, commitments or understandings (or to any of the provisions thereof):

(i) this Agreement and the Ancillary Agreements (and each other agreement or instrument expressly contemplated by this Agreement or any Ancillary Agreement to be entered into by any of the parties or any HII Entities and New NGC Entities);

(ii) any agreements, arrangements, commitments or understandings to which any non-wholly owned Subsidiary or non-wholly owned Affiliate of New NGC or HII, as the case may be, is a party (it being understood that directors’ qualifying shares or similar interests will be disregarded for purposes of determining whether a Subsidiary is wholly owned);

(iii) any other agreements, arrangements, commitments or understandings that this Agreement or any Ancillary Agreement expressly contemplates will survive the Distribution;
(iv) any confidentiality or non-disclosure agreements among any members of either Group or employees of any member of either Group, including any obligation not to disclose proprietary or privileged information; and

(v) any agreements, arrangements, commitments or understandings listed or described on Schedule 2.3(b)(v).

(c) Except as otherwise expressly and specifically provided in this Agreement or any Ancillary Agreement, all intercompany receivables, payables, loans and other accounts between any New NGC Entity, on the one hand, and any HII Entity, on the other hand, in existence as of immediately prior to the Distribution and after giving effect to the Internal Reorganization shall be satisfied and/or settled by the relevant members of the New NGC Group and the New HII Group no later than the Distribution by (i) forgiveness by the relevant obligor or (ii) one or a related series of repayments, distributions of and/or contributions to capital, in each case as determined by Northrop Grumman.

Section 2.4 Novation of Shipbuilding Liabilities

(a) Each of New NGC and HII, at the written request of the other party, shall use its reasonable best efforts to obtain, or to cause to be obtained, any release, Consent, substitution or amendment required to novate or assign all rights and obligations under any agreements, leases, licenses and other obligations or Liabilities of any nature whatsoever that constitute Shipbuilding Liabilities, or to obtain in writing the unconditional release of all parties to such arrangements other than any HII Entities, so that, in any such case, HII and the other HII Entities will be solely responsible for such Shipbuilding Liabilities; provided, however, that none of the New NGC Entities or the HII Entities shall be obligated to pay any significant (relative to the underlying agreement, lease, license or obligation) consideration or surrender, release or modify any material rights or material remedies therefor to any third party from whom such releases, Consents, substitutions and amendments are requested except as expressly set forth in this Agreement or any Ancillary Agreement.

(b) If New NGC or HII is unable to obtain, or to cause to be obtained, any required release, Consent, substitution or amendment, the applicable New NGC Entity may continue to be bound by the applicable underlying agreement, lease, license or other obligation or other Liabilities and, unless not permitted by Law, HII shall, or shall cause another HII Entity to, as agent or subcontractor for such New NGC Entity, pay, perform and discharge fully all the obligations or other Liabilities of such New NGC Entity thereunder. HII shall indemnify each New NGC Indemnitee and hold it harmless against any Liabilities arising in connection therewith. New NGC shall pay and remit, or cause to be paid or remitted, to the applicable HII Entity, all money, rights and other consideration received by any New NGC Entity (net of any applicable expenses) in respect of such performance by such HII Entity (unless any such consideration is a Retained Asset). If and when any such release, Consent, substitution or amendment shall be obtained or such agreement, lease, license or other rights, obligations or other Liabilities shall otherwise become assignable or able to be novated, New NGC shall thereafter assign, or cause to be
assigned, all the New NGC Entities’ rights, obligations and other Liabilities thereunder to the applicable HII Entity without payment of any further consideration and the applicable HII Entity shall, without the payment of any further consideration, assume such rights, obligations and other Liabilities.

Section 2.5 Novation of Retained Liabilities.

(a) Each of New NGC and HII, at the written request of the other party, shall use its reasonable best efforts to obtain, or to cause to be obtained, any release, Consent, substitution or amendment required to novate or assign all rights and obligations under any agreements, leases, licenses and other obligations or Liabilities of any nature whatsoever that constitute Retained Liabilities, or to obtain in writing the unconditional release of all parties to such arrangements other than any New NGC Entities, so that, in any such case, New NGC and the other New NGC Entities will be solely responsible for such Retained Liabilities; provided, however, that none of the New NGC Entities or the HII Entities shall be obligated to pay any significant (relative to the underlying agreement, lease, license or obligation) consideration or surrender, release or modify any material rights or material remedies therefor to any third party from whom such releases, Consents, substitutions and amendments are requested except as expressly set forth in this Agreement or any Ancillary Agreement.

(b) If New NGC or HII is unable to obtain, or to cause to be obtained, any required release, Consent, substitution or amendment, the applicable HII Entity may continue to be bound by the applicable underlying agreement, lease, license or other obligation or other Liabilities and, unless not permitted by Law or the terms thereof, New NGC shall, or shall cause another New NGC Entity to, as agent or subcontractor for such HII Entity, pay, perform and discharge fully all the obligations or other Liabilities of such HII Entity thereunder. New NGC shall indemnify each HII Indemnitee and hold it harmless against any Liabilities arising in connection therewith. HII shall pay and remit, or cause to be paid or remitted, to the applicable New NGC Entity, all money, rights and other consideration received by any HII Entity (net of any applicable expenses) in respect of such performance by such New NGC Entity (unless any such consideration is a Shipbuilding Asset). If and when any such release, Consent, substitution, approval or amendment shall be obtained or such agreement, lease, license or other rights, obligations or other Liabilities shall otherwise become assignable or able to be novated, HII shall thereafter assign, or cause to be assigned, all the HII Entities’ rights, obligations and other Liabilities thereunder to the applicable New NGC Entity without payment of any further consideration and the applicable New NGC Entity shall, without the payment of any further consideration, assume such rights, obligations and other Liabilities.

Section 2.6 Disclaimer of Representations and Warranties. Each of New NGC (on behalf of itself and each other New NGC Entity) and HII (on behalf of itself and each other HII Entity) understands and agrees that, except as expressly set forth herein or in any Ancillary Agreement, no party (including its Affiliates) to this Agreement, any Ancillary Agreement or any other agreement or document contemplated by this Agreement, any Ancillary Agreement or otherwise, is making any representations or warranties relating in any way to the Assets, businesses or Liabilities transferred or assumed as contemplated
hereby or thereby, to any Consent required in connection therewith, to the value or freedom from any Security Interests of, or any other matter concerning, any Assets of such party, or to the absence of any defenses or right of setoff or freedom from counterclaim with respect to any claim or other Asset, including any accounts receivable, of any party, or to the legal sufficiency of any assignment, document or instrument delivered hereunder to convey title to any Asset or thing of value upon the execution, delivery and filing hereof or thereof. Except as may expressly be set forth herein or in any Ancillary Agreement, (a) all such Assets are being transferred on an “as is,” “where is” basis, (b) any implied warranty of merchantability, fitness for a specific purpose or otherwise is hereby expressly disclaimed, (c) the respective transferees shall bear the economic and legal risks that any conveyance shall prove to be insufficient to vest in the transferee good and marketable title, free and clear of any Security Interest and (d) none of the New NGC Entities or the HII Entities (including their Affiliates) or any other Person makes any representation or warranty with respect to any information, documents or material made available in connection with the Separation or the Distribution, or the entering into of this Agreement or any Ancillary Agreement or the transactions contemplated hereby or thereby, except as expressly set forth in this Agreement or any Ancillary Agreement.

Section 2.7 Treatment of Cash.

(a) Prior to the Distribution, each of the HII Entities shall make capital and other expenditures and operate its cash management, accounts payable and receivables collection systems in the ordinary course consistent with prior practice.

(b) From the date of this Agreement until the HII Contribution, NGC (prior to the Holding Company Reorganization) and New NGC (after the Holding Company Reorganization) shall be entitled to use, retain or otherwise dispose of all cash generated by the Shipbuilding Business and the Shipbuilding Assets in accordance with the ordinary course operation of NGC’s and New NGC’s respective cash management systems. All such cash shall be a Retained Asset.

Section 2.8 Replacement of Credit Support.

(a) New NGC shall use reasonable best efforts to arrange, at its cost and expense and effective at or prior to the Distribution, the replacement of all Credit Support Instruments relating exclusively to the Retained Business and provided by or through NGC or any other member of the HII Group exclusively for the benefit of any member of the New NGC Group (the “New NGC Credit Support Instruments”) with alternate arrangements that do not require any credit support from NGC or any other member of the HII Group, and shall use reasonable best efforts to obtain from the beneficiaries of such New NGC Credit Support Instruments written releases indicating that NGC or such other member of the HII Group will, effective upon the Distribution, have no liability with respect to such New NGC Credit Support Instruments. In the event that New NGC is unable to obtain any such alternative arrangements for any New NGC Credit Support Instrument prior to the Distribution, it shall have responsibility for the payment and performance of the obligations underlying such New NGC Credit Support Instrument.
(b) HII shall use reasonable best efforts to arrange, at its cost and expense and effective at or prior to the Distribution, the replacement of certain Credit Support Instruments identified on Schedule 2.8(b) relating to the Shipbuilding Business and provided by or through NGC or any member of the New NGC Group for the benefit of any member of the HII Group (other than NGC) (the “HII Credit Support Instruments”) with alternate arrangements that do not require any credit support from New NGC or any member of the New NGC Group, and shall use reasonable best efforts to obtain from the beneficiaries of such HII Credit Support Instruments written releases indicating that NGC or any member of the New NGC Group will, effective upon the Distribution, have no liability with respect to such HII Credit Support Instruments. In the event that HII is unable to obtain any such alternative arrangements for any HII Credit Support Instrument prior to the Distribution, it shall have responsibility for the payment and performance of the obligations underlying such HII Credit Support Instrument.

ARTICLE III

ACTIONS PENDING THE DISTRIBUTION

Section 3.1 Actions Prior to the Distribution.

(a) Subject to the conditions specified in Section 3.2 and subject to Section 4.3, each of the parties shall use its reasonable best efforts to consummate the Distribution. Such actions shall include those specified in this Section 3.1.

(b) Prior to the Distribution, each of the parties will execute and deliver all Ancillary Agreements to which it is a party, and will cause the other New NGC Entities and HII Entities, as applicable, to execute and deliver any Ancillary Agreements to which such Persons are parties.

(c) Prior to the Distribution, HII shall mail the Information Statement to the Record Holders.

(d) HII shall prepare, file with the SEC and use its reasonable best efforts to cause to become effective any registration statements or amendments thereto required to effect the establishment of, or amendments to, any employee benefit and other plans necessary or appropriate in connection with the transactions contemplated by this Agreement or any of the Ancillary Agreements.

(e) Each of the parties shall take all such actions as may be necessary or appropriate under the securities or blue sky Laws of the states or other political subdivisions of the United States or of other foreign jurisdictions in connection with the Distribution.

(f) HII shall prepare and file, and shall use reasonable best efforts to have approved prior to the Distribution, an application for the listing on the NYSE of the HII Common Stock to be distributed in the Distribution, subject to official notice of listing.

(g) Prior to the Distribution, the existing directors of HII shall duly elect the individuals listed as members of the HII board of directors in the Information
Statement, and such individuals shall become the members of the HII board of directors effective as of no later than immediately prior to the Distribution.

(h) Prior to the Distribution, New NGC shall deliver or cause to be delivered to HII the resignation from each applicable HII Entity, effective as of no later than immediately prior to the Distribution, of each individual who will be an employee of any New NGC Entity after the Distribution and who is an officer or director of any HII Entity immediately prior to the Distribution.

(i) Immediately prior to the Distribution, the Restated Certificate of Incorporation and Restated Bylaws of HII, each in substantially the form filed as an exhibit to the Form 10, shall be in effect.

(j) The parties shall, subject to Section 4.3, take all reasonable steps necessary and appropriate to cause the conditions set forth in Section 3.2 to be satisfied and to effect the Distribution on the Distribution Date.

Section 3.2 Conditions to Distribution. The obligations of the parties to consummate the Distribution shall be conditioned on the satisfaction, or waiver by the Northrop Grumman Board, of the following conditions:

(a) The Northrop Grumman Board shall, in its sole and absolute discretion, have authorized and approved the Separation and the Distribution and not withdrawn such authorization and approval.

(b) The New NGC Board shall have declared the dividend of HII Common Stock to the Record Holders.

(c) Each Ancillary Agreement shall have been executed by each party thereto.

(d) The SEC shall have declared the Form 10 effective, no stop order suspending the effectiveness of the Form 10 shall be in effect, and no proceedings for such purpose shall be pending before or threatened by the SEC.

(e) The HII Common Stock shall have been accepted for listing on the NYSE or another national securities exchange approved by the Northrop Grumman Board, subject to official notice of issuance.

(f) The Internal Reorganization shall have been completed.

(g) New NGC shall have received the IRS Ruling and the Opinion, each of which shall remain in full force and effect, that the Holding Company Reorganization, the Internal Reorganization, and the Distribution will qualify for Tax-Free Status.

(h) HII shall have (i) entered into the HII Credit Facility, (ii) received the net proceeds from the HII Debt and (iii) made the HII Contribution.
(i) No order, injunction or decree that would prevent the consummation of the Distribution shall be threatened, pending or issued (and still in effect) by any Governmental Authority of competent jurisdiction, no other legal restraint or prohibition preventing the consummation of the Distribution shall be in effect, and no other event outside the control of Northrop Grumman shall have occurred or failed to occur that prevents the consummation of the Distribution.

(j) No other events or developments shall have occurred prior to the Distribution that, in the judgment of the Northrop Grumman Board, would result in the Distribution having a significant adverse effect on Northrop Grumman or the Northrop Grumman Stockholders.

(k) The actions set forth in Sections 3.1(c), (h) and (i) shall have been completed.

(l) HII shall have delivered to New NGC a certificate signed by the chief financial officer of HII, dated as of the Distribution Date, certifying that the HII Entities have complied with Section 2.7(a).

The foregoing conditions may only be waived by the Northrop Grumman Board, in its sole and absolute discretion, are for the sole benefit of Northrop Grumman and shall not give rise to or create any duty on the part of the Northrop Grumman Board to waive or not waive such conditions or in any way limit the right of termination of this Agreement set forth in Article IX or alter the consequences of any such termination from those specified in Article IX. Any determination made by the Northrop Grumman Board prior to the Distribution concerning the satisfaction or waiver of any or all of the conditions set forth in this Section 3.2 shall be conclusive.

ARTICLE IV
THE DISTRIBUTION

Section 4.1 The Distribution.

(a) HII shall cooperate with Northrop Grumman to accomplish the Distribution and shall, at the direction of Northrop Grumman, use its reasonable best efforts to promptly take any and all actions necessary or desirable to effect the Distribution. Each of the parties will provide, or cause the applicable member of its Group to provide, to the Agent all documents and information required to complete the Distribution.

(b) Subject to the terms and conditions set forth in this Agreement, (i) on or prior to the Distribution Date, for the benefit of and distribution to the Record Holders, New NGC will deliver to the Agent all of the issued and outstanding shares of HII Common Stock then owned by New NGC or any other New NGC Entity and book-entry authorizations for such shares and (ii) on the Distribution Date, New NGC shall instruct the Agent to distribute, by means of a pro rata dividend, to each Record Holder (or such Record Holder’s bank or brokerage firm on such Record Holder’s behalf) electronically, by direct registration in book-entry form, the number of whole shares of HII Common Stock.
to which such Record Holder is entitled based on the Distribution Ratio. The Distribution shall be effective at 12:01 a.m. Eastern time on the Distribution Date. On or as soon as practicable after the Distribution Date, the Agent will mail an account statement indicating the number of shares of HII Common Stock that have been registered in book-entry form in the name of each Record Holder.

(c) With respect to the shares of HII Common Stock remaining with the Agent 180 days after the Distribution Date, the Agent shall deliver any such shares as directed by HII, with the consent of New NGC (which consent shall not be unreasonably withheld or delayed).

Section 4.2 Fractional Shares. The Agent and New NGC shall, as soon as practicable after the Distribution Date, (a) determine the number of whole shares and fractional shares of HII Common Stock allocable to each Record Holder, (b) aggregate all such fractional shares into whole shares and sell the whole shares obtained thereby in open market transactions at then-prevailing trading prices on behalf of Record Holders that would otherwise be entitled to fractional share interests and (c) distribute to each such Record Holder, or for the benefit of each beneficial owner of fractional shares, such Record Holder’s or beneficial owner’s ratable share of the net proceeds of such sales, based upon the average gross selling price per share of HII Common Stock after making appropriate deductions for any amount required to be withheld under applicable Tax Law and less any transfer Taxes. HII will be responsible for payment of any brokerage fees associated with such sales. The Agent, in its sole discretion, will determine the timing and method of selling such shares, the selling price of such shares and the broker-dealer to which such shares will be sold; provided, however, that the designated broker-dealer is not an Affiliate of New NGC or HII. Neither New NGC nor HII will pay any interest on the proceeds from the sale of such shares.

Section 4.3 Sole Discretion of the Northrop Grumman Board and New NGC Board. Subject to the last sentence of this Section 4.3, the Northrop Grumman Board shall, in its sole and absolute discretion, determine the Distribution Date and all terms of the Distribution, including the form, structure and terms of any transactions and/or offerings to effect the Distribution and the timing of and conditions to the consummation thereof. In addition, and notwithstanding anything to the contrary set forth below, the Northrop Grumman Board, in its sole and absolute discretion, may at any time and from time to time until the Distribution decide to abandon the Distribution or modify or change the terms of the Distribution, including by accelerating or delaying the timing of the consummation of all or part of the Distribution. The New NGC Board shall determine the Record Date.

ARTICLE V
MUTUAL RELEASES; INDEMNIFICATION

Section 5.1 Release of Pre-Distribution Claims.

(a) Except (i) as provided in Section 5.1(c), (ii) as may be otherwise provided in this Agreement or any Ancillary Agreement and (iii) for any matter for which any HII Indemnitee is entitled to indemnification pursuant to this Article V, effective as of
the Distribution, HII does hereby, for itself and each other HII Entity and their respective Affiliates, predecessors, successors and assigns, and, to the extent HII
legally may, all Persons that at any time prior or subsequent to the Distribution have been stockholders, directors, officers, members, agents or employees of
HII or any other HII Entity (in each case, in their respective capacities as such), remise, release and forever discharge each New NGC Entity, their respective
Affiliates, successors and assigns, and all Persons that at any time prior to the Distribution have been stockholders, directors, officers, members, agents or
employees of New NGC or any other New NGC Entity (in each case, in their respective capacities as such), and their respective heirs, executors,
administrators, successors and assigns, from any and all Liabilities whatsoever, whether at law or in equity, whether arising under any contract or agreement,
by operation of law or otherwise, existing or arising from or relating to any acts or events occurring or failing to occur or alleged to have occurred or to have
failed to occur or any conditions existing or alleged to have existed on or before the Distribution Date, whether or not known as of the Distribution Date,
including any claims with respect to the sufficiency or condition of the Shipbuilding Assets or the allocation of Liabilities to the HII Group.

(b) Except (i) as provided in Section 5.1(c), (ii) as may be otherwise provided in this Agreement or any Ancillary Agreement and (iii) for any matter for
which any New NGC Indemnitee is entitled to indemnification pursuant to this Article V, New NGC does hereby, for itself and each other New NGC Entity
and their respective Affiliates, successors and assigns, and, to the extent New NGC legally may, all Persons that at any time prior to the Distribution have
been stockholders, directors, officers, members, agents or employees of New NGC or any other New NGC Entity (in each case, in their respective capacities as
such), remise, release and forever discharge each HII Entity, their respective Affiliates, successors and assigns, and all Persons that at any time prior to the
Distribution have been stockholders, directors, officers, members, agents or employees of HII or any other HII Entity (in each case, in their respective
capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all Liabilities whatsoever, whether at law or in
equity, whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to
occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the Distribution Date, whether
or not known as of the Distribution Date.

(c) Nothing contained in Section 5.1(a) or 5.1(b) shall impair any right of any Person to enforce this Agreement, any Ancillary Agreement, including the
applicable Schedules hereto and thereto, or any arrangement that is not to terminate as of the Distribution, as specified in Section 2.3(b). Nothing contained
in Section 5.1(a) or 5.1(b) shall release any Person from:

(i) any Liability provided in or resulting from any agreement among any New NGC Entities and any HII Entities that is not to terminate as of the
Distribution, as specified in Section 2.3(b), or any other Liability that is not to terminate as of the Distribution, as specified in Section 2.3(b);
(ii) any Liability, contingent or otherwise, assumed, transferred, assigned or allocated to the Group of which such Person is a member in accordance with, or any other Liability of any member of any Group under, this Agreement or any Ancillary Agreement; or

(iii) any Liability the release of which would result in the release of any Person other than a Person released pursuant to this Section 5.1; provided that the parties agree not to bring suit or permit any of their Subsidiaries to bring suit against any Person with respect to any Liability to the extent that such Person would be released with respect to such Liability by this Section 5.1 but for the provisions of this clause (iii).

(d) HII shall not make, and shall not permit any other HII Entity to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim for indemnification, against any New NGC Entity, or any other Person released pursuant to Section 5.1(a), with respect to any Liabilities released pursuant to Section 5.1(a). New NGC shall not, and shall not permit any other New NGC Entity, to make any claim or demand, or commence any Action asserting any claim or demand, including any claim for indemnification, against any HII Entity, or any other Person released pursuant to Section 5.1(b), with respect to any Liabilities released pursuant to Section 5.1(b).

(e) At any time, at the request of any other party, each party shall cause each member of its respective Group to execute and deliver releases in form reasonably satisfactory to the other party reflecting the provisions of this Section 5.1.

Section 5.2 Indemnification by HII and NGSB. Subject to Section 5.4, following the Distribution, HII and NGSB shall jointly and severally indemnify, defend and hold harmless New NGC, each New NGC Entity and each of their respective current, former and future directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the “New NGC Indemnitees”), from and against any and all Liabilities of the New NGC Indemnitees relating to, arising out of or resulting from any of the following items (without duplication):

(a) the Shipbuilding Liabilities; and

(b) any breach by any HII Entity of this Agreement or any of the Ancillary Agreements (other than the Tax Matters Agreement and the Ingalls Indemnity Agreement, which shall be subject to the provisions contained therein).

Section 5.3 Indemnification by New NGC and NGSC. Subject to Section 5.4, following the Distribution, New NGC and NGSC shall jointly and severally indemnify, defend and hold harmless HII, each HII Entity and each of their respective current, former and future directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the “HII Indemnitees”), from and against any and all Liabilities of the HII Indemnitees relating to, arising out of or resulting from any of the following items (without duplication):

(a) the Retained Liabilities; and
(b) any breach by any New NGC Entity of this Agreement or any of the Ancillary Agreements (other than the Tax Matters Agreement and the Ingalls Indemnity Agreement, which shall be subject to the provisions contained therein).

Section 5.4 Indemnification Obligations Net of Insurance Proceeds and Other Amounts.

(a) The parties intend that any Liability subject to indemnification or reimbursement pursuant to this Agreement will be net of Insurance Proceeds and other amounts received that actually reduce the amount of the Liability for which indemnification is sought. Accordingly, the amount which any party (an "Indemnifying Party") is required to pay to any Person entitled to indemnification or reimbursement under this Agreement (an "Indemnitee") will be reduced by any Insurance Proceeds and other amounts theretofore actually recovered by or on behalf of the Indemnitee in reduction of the related Liability. If an Indemnitee receives a payment (an "Indemnity Payment") required by this Agreement from an Indemnifying Party in respect of any Liability and subsequently receives Insurance Proceeds or other amounts therefor, then the Indemnitee will promptly pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payment received over the amount of the Indemnity Payment that would have been due if the Insurance Proceeds or other amounts had been received, realized or recovered before the Indemnity Payment was made.

(b) In the case of any Shared Liability, any Insurance Proceeds actually received, realized or recovered by any party in respect of the Shared Liability will be shared between the New NGC Group and the HII Group in accordance with their respective Applicable Proportions, regardless of which Group may actually receive, realize or recover such Insurance Proceeds.

(c) An insurer that would otherwise be obligated to defend or make payment in response to any claim shall not be relieved of the responsibility with respect thereto or, solely by virtue of the indemnification provisions hereof, have any subrogation rights with respect thereto, it being expressly understood and agreed that no insurer or any other third party shall be entitled to a "windfall" (i.e., a benefit it would not be entitled to receive in the absence of the indemnification provisions of this Agreement) by virtue of the indemnification provisions hereof.

Section 5.5 Third-Party Claims.

(a) If an Indemnitee shall receive notice or otherwise learn of the assertion by a Person (including any Governmental Authority) that is not a New NGC Entity or a HII Entity of any claim (including environmental claims and demands or requests for investigation or remediation of contamination) or of the commencement by any such Person of any Action with respect to which an Indemnifying Party may be obligated to provide indemnification to such Indemnitee pursuant to this Agreement or any Ancillary Agreement (collectively, a "Third-Party Claim"), such Indemnitee shall give such Indemnifying Party written notice thereof as soon as promptly practicable, but no later than 20 days after becoming aware of such Third-Party Claim. Any such notice shall
describe the Third-Party Claim in reasonable detail and contain written correspondence received from the third party that relates to the Third-Party Claim. Notwithstanding the foregoing, the failure of any Indemnitee to give notice as provided in this Section 5.5(a) shall not relieve the related Indemnifying Party of its obligations under this Article V, except to the extent that such Indemnifying Party is prejudiced by such failure to give notice.

(b) With respect to any Third-Party Claim that is or may be a Shared Liability:

(i) If the Indemnifying Party receiving any notice pursuant to Section 5.5(a) or the Indemnitee believes that the Third-Party Claim is or may be a Shared Liability, such Indemnifying Party or Indemnitee may make a Determination Request within 30 days after the notice given by the Indemnitee to the Indemnifying Party pursuant to Section 5.5(a). Upon the making of a Determination Request, the applicable Indemnitee shall assume the defense of such Third-Party Claim until a determination as to whether such Third-Party Claim is a Shared Liability. In the event of such assumption of defense, such Indemnitee shall be entitled to reimbursement of all the costs and expenses of such defense once a final determination or acknowledgement is made that such Indemnitee is entitled to indemnification with respect to such Third-Party Claim; provided, that if such Third-Party Claim is determined to be a Shared Liability, such costs and expenses shall be shared as provided in Section 5.5(b)(ii). If it is determined by New NGC and HII or by the Allocation Committee that the Third-Party Claim is a Shared Liability, the Managing Party (as determined in accordance with Section 6.1(a)) shall assume the defense of such Third-Party Claim as soon as reasonably practicable following such determination.

(ii) A party’s costs and expenses of assuming the defense of (subject to Section 5.5(b)(i)), and/or seeking to settle or compromise (subject to Section 5.5(b)(iv)), any Third-Party Claim that is a Shared Liability shall be included in the calculation of the amount of the applicable Shared Liability in determining the obligations of the parties with respect thereto pursuant to Section 6.4.

(iii) The Managing Party shall consult with the Non-Managing Party prior to taking any action with respect to any Third-Party Claim that is a Shared Liability if the Managing Party’s action could reasonably be expected to have a significant adverse impact (financial or non-financial) on the Non-Managing Party, including a significant adverse impact on the rights, obligations, operations, standing or reputation of the Non-Managing Party (or its Subsidiaries or Affiliates), and the Managing Party shall not take such action without the prior written consent of the Non-Managing Party, which consent shall not be unreasonably withheld or delayed.

(iv) The Managing Party shall promptly give notice to the Non-Managing Party regarding the substance of any settlement related discussions with respect to any Third-Party Claim that is a Shared Liability if (A) the Non-Managing Party is required to share in any significant aspect of the costs and expenses, proceeds or obligations resulting from such settlement or (B) the settlement can reasonably be expected to have a significant impact (financial or nonfinancial) on the Non-Managing Party. In
such instances, the Managing Party shall not settle such Third-Party Claim without the prior written consent of the Non-Managing Party, which consent shall not be unreasonably withheld or delayed.

(c) With respect to any Third-Party Claim that is not a Shared Liability:

(i) Unless the parties otherwise agree, within 30 days after the receipt of notice from an Indemnitee in accordance with Section 5.5(a), an Indemnifying Party shall defend (and, unless the Indemnifying Party has specified any reservations or exceptions, may seek to settle or compromise), at such Indemnifying Party’s own cost and expense and by such Indemnifying Party’s own counsel, any Third-Party Claim that is not a Shared Liability. The applicable Indemnitee shall have the right to employ separate counsel and to participate in (but not control) the defense, compromise, or settlement thereof, but the fees and expenses of such counsel shall be the expense of such Indemnitee. Notwithstanding the foregoing, the Indemnifying Party shall be liable for the fees and expenses of counsel employed by the Indemnitee (A) for any period during which the Indemnifying Party has not assumed the defense of such Third-Party Claim (other than during any period in which the Indemnitee shall have failed to give notice of the Third-Party Claim in accordance with Section 5.5(a)) or (B) to the extent that such engagement of counsel is as a result of a conflict of interest, as reasonably determined by the Indemnitee acting in good faith.

(ii) No Indemnifying Party shall consent to entry of any judgment or enter into any settlement of any Third-Party Claim that is not a Shared Liability without the consent of the applicable Indemnitee; provided, however, that such Indemnitee shall be required to consent to such entry of judgment or to such settlement that the Indemnifying Party may recommend if the judgment or settlement (A) contains no finding or admission of any violation of Law or any violation of the rights of any Person, (B) involves only monetary relief which the Indemnifying Party has agreed to pay and could not reasonably be expected to have a significant adverse impact (financial or non-financial) on the Indemnitee, including a significant adverse impact on the rights, obligations, operations, standing or reputation of the Indemnitee (or any of its Subsidiaries or Affiliates), and (C) includes a full and unconditional release of the Indemnitee. Notwithstanding the foregoing, in no event shall an Indemnitee be required to consent to any entry of judgment or settlement if the effect thereof is to permit any injunction, declaratory judgment, other order or other nonmonetary relief to be entered, directly or indirectly, against any Indemnitee.

(d) Whether or not the Indemnifying Party assumes the defense of a Third-Party Claim, no Indemnitee shall admit any liability with respect to, or settle, compromise or discharge, such Third-Party Claim without the Indemnifying Party’s prior written consent, which consent shall not be unreasonably withheld or delayed.

(e) Notwithstanding anything to the contrary in this Section 5.5 or in Article VI, the additional provisions of the Litigation Management Agreement shall govern with respect to all Third-Party Claims (including Shared Actions) specifically set forth therein or covered by the terms thereof, and the Litigation Management Agreement shall
control over any inconsistent provisions of this Section 5.5 and Article VI as to such Third-Party Claims.

Section 5.6 Additional Matters.

(a) Any claim on account of a Liability that does not result from a Third-Party Claim shall be timely asserted by written notice given by the Indemnitee to the related Indemnifying Party. Such Indemnifying Party shall have a period of 30 days after the receipt of such notice within which to respond thereto. If such Indemnifying Party does not respond within such 30-day period, such Indemnifying Party shall be deemed to have refused to accept responsibility to make payment. If such Indemnifying Party does not respond within such 30-day period or rejects such claim in whole or in part, such Indemnitee shall be free to pursue remedies as specified by this Agreement and the Ancillary Agreements.

(b) In the event of payment by or on behalf of any Indemnifying Party to any Indemnitee in connection with any Third-Party Claim, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnitee as to any events or circumstances in respect of which such Indemnitee may have any right, defense or claim relating to such Third-Party Claim against any claimant or plaintiff asserting such Third-Party Claim or against any other Person. Such Indemnitee shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost and expense of such Indemnifying Party, in prosecuting any subrogated right, defense or claim.

(c) In the event of an Action in which the Indemnifying Party is not a named defendant, if either the Indemnitee or the Indemnifying Party shall so request, the parties shall endeavor to substitute the Indemnifying Party for the named defendant, if reasonably practicable. If such substitution or addition cannot be achieved or is not requested, the named defendant shall allow the Indemnifying Party to manage the Action as set forth in this Agreement and the Litigation Management Agreement and the Indemnifying Party shall fully indemnify the named defendant against all costs of defending the Action (including court costs, sanctions imposed by a court, attorneys’ fees, experts’ fees and all other external expenses, and the allocated costs of in-house counsel and other personnel), the costs of any judgment or settlement, and the cost of any interest or penalties relating to any judgment or settlement.

Section 5.7 Remedies Cumulative. The remedies provided in this Article V shall be cumulative and shall not preclude assertion by any Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

Section 5.8 Survival of Indemnities. The rights and obligations of each of New NGC, NGSC, HII, NGSB and their respective Indemnitees under this Article V shall survive the sale or other transfer by any party of any Assets or businesses or the assignment by it of any Liabilities.

Section 5.9 Limitation on Liability. Except as may expressly be set forth in this Agreement, none of New NGC, NGSC, HII, NGSB or any other member of either Group
shall in any event have any Liability to the other or to any other member of the other’s Group, or to any other New NGC Indemnitee or HII Indemnitee, as applicable, under this Agreement (a) to the extent that any such Liability resulted from any willful violation of Law or fraud by the party seeking indemnification or (b) for any indirect, punitive or consequential damages. Notwithstanding the foregoing, the provisions of this Section 5.9 shall not limit an Indemnifying Party’s indemnification obligations with respect to any Liability that any Indemnitee may have to any third party not affiliated with any member of the New NGC Group or the HII Group.

ARTICLE VI
SHARED GAINS AND SHARED LIABILITIES

Section 6.1 Managing Party.

(a) With respect to any Shared Gain or Shared Liability, either HII or New NGC shall be the “Managing Party.” With respect to any Shared Gain identified on Schedule 1.1(a)(2) or any Shared Liability identified on Schedule 1.1(a)(1), the Managing Party shall be the party with the higher Applicable Proportion as set forth thereon. In all other cases, the Managing Party shall be selected by the Allocation Committee in accordance with Sections 6.1(b) and 6.2.

(b) In determining which party shall be the Managing Party, the Allocation Committee shall consider as the primary factor in such a determination which party is subject to the greater financial, operational and reputational risk or exposure in connection with such Shared Gain or Shared Liability, including the relative Applicable Proportion of each Group with respect to such Shared Gain or Shared Liability. The Allocation Committee shall also consider such other factors as the Allocation Committee deems appropriate, including if applicable, which party has control over the potentially relevant documentation and possible witnesses with respect to such Shared Gain or Shared Liability.

Section 6.2 Allocation Committee.

(a) New NGC and HII will form the Allocation Committee for the following purposes:

(i) resolving whether (A) any claim or right is a Shared Gain or (B) any Liability is a Shared Liability, in each case if not otherwise agreed between New NGC and HII;

(ii) except with respect to the matters described on Schedule 1.1(a)(1) or Schedule 1.1(a)(2), determining the Applicable New NGC Proportion and the Applicable HII Proportion of any Shared Gains and Shared Liabilities; and
(iii) determining whether HII or New NGC shall be the Managing Party of any Shared Gain or Shared Liability.

(b) New NGC and HII shall refer (i) any Shared Liability not identified on Schedule 1.1(a)(1) and any Shared Gain not identified on Schedule 1.1(a)(2) or in the Litigation Management Agreement to the Allocation Committee to determine the Applicable New NGC Proportion and the Applicable HII Proportion of such Shared Gain or Shared Liability, and the Managing Party of such Shared Gain or Shared Liability, and (ii) any potential Shared Gains or Shared Liabilities that New NGC and HII are not able to agree are Shared Gains or Shared Liabilities to the Allocation Committee for resolution of the status thereof. If the Allocation Committee reaches a determination (which shall be made within 30 days after such referral on a matter submitted to the Allocation Committee by any of New NGC or HII), then that determination shall be binding on New NGC and HII and their respective successors and assigns.

(c) In the event that the Allocation Committee cannot reach a determination within 30 days after the referral pursuant to Section 6.2(b) as to (i) the appropriate allocation of Shared Gains or Shared Liabilities between the New NGC Group and the HII Group, (ii) the nature or status of any such Shared Liabilities or Shared Gains or (iii) the Managing Party of any such Shared Liabilities or Shared Gains or any other matter under consideration by the Allocation Committee, then the procedures set forth in Article X of this Agreement shall govern.

Section 6.3 Shared Gains.

(a) If either HII or New NGC becomes aware of any claim or right that may reasonably be expected to be a Shared Gain, it shall notify the other party in writing as soon as promptly practicable, but no later than 20 days after becoming aware of such potential Shared Gain, which notice shall describe the potential Shared Gain in reasonable detail. Such other party may make a Determination Request within 30 days after receipt of such notice.

(b) Any benefit that may be received from any Shared Gain shall be shared between New NGC and HII in proportion to the Applicable New NGC Proportion and the Applicable HII Proportion, respectively, and shall be paid in accordance with Section 6.5. The Managing Party of any Shared Gain shall have the authority to commence, prosecute, settle, manage, waive, release, discharge and otherwise determine all matters with respect to such Shared Gain. The Non-Managing Party of such Shared Gain shall not take, or permit any member of its Group to take, any action (including commencing any claim) that would interfere with such rights and powers of the Managing Party, except as required by applicable Law or contract (in which case the Non-Managing Party shall provide advance notice of such action to the Managing Party and shall give the Managing Party the opportunity to consult with respect to such action). The Managing Party of such Shared Gain shall use its reasonable best efforts to notify the Non-Managing Party promptly in the event that it commences an Action with respect to a Shared Gain. The Managing Party of any Shared Gain may elect not to pursue such Shared Gain for any reason whatsoever (including a different assessment of the merits of any Action, claim or
right than the other party or any business reasons that are in the best interests of the Managing Party or a member of the Managing Party’s Group, without regard to the best interests of any member of the other Group) and no member of the Managing Party’s Group with a majority interest in such Shared Gain shall have any liability to any Person (including any member of the other Group) as a result of any such determination. In the event that the Managing Party of any Shared Gain elects not to pursue such Shared Gain, the Non-Managing Party may request in writing to the Managing Party that the Non-Managing Party have the right to pursue such Shared Gain on behalf of the Non-Managing Party and the Managing Party (in which case, the Non-Managing Party shall be treated as the Managing Party for purposes of such Shared Gain); provided, however, that the Managing Party may refuse such request in its sole discretion.

(c) Upon the making of a Determination Request, New NGC alone may, but shall not be obligated to, commence prosecution or other assertion of the claim or right that is subject to such Determination Request pending resolution of the status of such claim or right. In the event that New NGC commences any such prosecution or assertion and, upon resolution of the Determination Request, it is determined hereunder that any such claim or right of HII is not a Shared Gain or that HII is the Managing Party of such Shared Gain, New NGC shall discontinue the prosecution or assertion of such claim or right and transfer the control thereof to HII as soon as reasonably practicable. In such event, if HII elects not to continue the prosecution of such claim or right, HII will reimburse New NGC for all costs and expenses incurred prior to resolution of such dispute in the prosecution or assertion of such claim or right.

Section 6.4 Shared Liabilities. Each of New NGC and HII shall be responsible for its Applicable Proportion of any Shared Liability. The Managing Party shall be responsible for managing, and shall have the authority to manage, the defense or prosecution, as applicable, and resolution of a Shared Liability. It shall not be a defense to any obligations by any party to pay any amount in respect of any Shared Liability that such party was not consulted in the response to or defense thereof (except to the extent such consultation was required under this Agreement or the Litigation Management Agreement), that such party’s views or opinions as to the conduct of such response to or defense or the reasonableness of any settlement were not accepted or adopted, that such party does not approve of the quality or manner of the response to or defense thereof or that such Shared Liability was incurred by reason of a settlement rather than by a judgment or other determination of liability (even if, subject to Section 5.5(b)(iv) and the applicable provisions of the Litigation Management Agreement, such settlement was effected without the consent or over the objection of such party).

Section 6.5 Payments. Any amount owed in respect of (a) any Shared Liabilities (including reimbursement for the cost or expense of defense of any Third-Party Claim that is a Shared Liability) or (b) any Shared Gains (including reimbursement for the costs or expenses to commence, prosecute or settle matters with respect to a Shared Gain), pursuant to this Article VI shall be remitted within 30 days after the party entitled to such amount provides an invoice (including reasonable supporting information with respect thereto) to the party owing such amount; provided, however, that the Applicable
Proportion of any amounts recovered with respect to any Shared Gain or Shared Liability shall be payable within 30 days after receipt thereof by the party recovering such amount.

ARTICLE VII
EXCHANGE OF INFORMATION; CONFIDENTIALITY

Section 7.1 Agreement for Exchange of Information.

(a) Except in the case of an adversarial Action or threatened adversarial Action related to a request hereunder by any member of either the New NGC Group or the HII Group against any member of the other Group (which shall be governed by such discovery rules as may be applicable thereto), and subject to Section 7.1(b), each of New NGC and HII, on behalf of the members of its respective Group, shall use reasonable best efforts to provide (except as otherwise provided in this Agreement or any Ancillary Agreement, at the sole cost and expense of the requesting party), or cause to be provided, to the other Group, at any time before or after the Distribution, as soon as reasonably practicable after written request therefor, any Information in the possession or under the control of the members of such respective Group that the requesting party reasonably requests (i) in connection with reporting, disclosure, filing or other requirements imposed on the requesting party (including under applicable securities, defense contracting or Tax Laws) by a Governmental Authority having jurisdiction over the requesting party, (ii) for use in any other judicial, regulatory, administrative, Tax, insurance or other proceeding or in order to satisfy audit, accounting, claims, regulatory, investigation, litigation, Tax or other similar requirements, or (iii) to comply with its obligations under this Agreement or any Ancillary Agreement. The receiving party shall use any Information received pursuant to this Section 7.1(a) solely to the extent reasonably necessary to satisfy the applicable obligations or requirements described in the immediately preceding sentence and shall otherwise take reasonable steps to protect such Information. Nothing in this Section 7.1 shall be construed as obligating a party to create Information not already in its possession or control.

(b) In the event that any party determines that the exchange of any Information pursuant to Section 7.1(a) is reasonably likely to violate any Law or binding agreement, or waive or jeopardize any attorney-client privilege, or attorney work product protection, such party shall not be required to provide access to or furnish such Information to the other party; provided, however, that the parties shall take all reasonable measures to permit compliance with Section 7.1(a) in a manner that avoids any such harm or consequence. New NGC and HII intend that any provision of access to or the furnishing of Information that would otherwise be within the ambit of any legal privilege shall not operate as a waiver of such privilege.

(c) After the Distribution, each of New NGC and HII shall maintain in effect systems and controls reasonably intended to enable the members of the other Group to satisfy their respective known reporting, accounting, disclosure, audit and other obligations.
Section 7.2 Ownership of Information. Any Information owned by a member of one Group that is provided to a requesting party pursuant to Section 7.1 shall be deemed to remain the property of the providing party. Except as specifically set forth herein, nothing contained in this Agreement shall be construed as granting or conferring rights of license or otherwise in any such Information.

Section 7.3 Compensation for Providing Information. The party requesting Information pursuant to Section 7.1 agrees to reimburse the party providing such Information for the reasonable costs, if any, of creating, gathering and copying such Information, to the extent that such costs are incurred for the benefit of the requesting party. Except as may be otherwise specifically provided elsewhere in this Agreement or in any other agreement between the parties, such costs shall be computed in accordance with the providing party’s standard methodology and procedures.

Section 7.4 Record Retention. Except for the matters addressed specifically in Section 8.7, to facilitate the possible exchange of Information pursuant to this Article VII and other provisions of this Agreement from and after the Distribution, each of the parties agrees to use reasonable best efforts to retain all Information in accordance with its record retention policy as in effect immediately prior to the Distribution or as modified in good faith thereafter, provided, however, that to the extent any Ancillary Agreement provides for a longer period of retention of certain Information, such longer period shall control. Each party agrees to retain any Information that, prior to the Distribution, is subject to a subpoena or a “do not destroy” notice issued by NGC or any of its Subsidiaries prior to the Distribution until such subpoena or notice is no longer applicable to such Information.

Section 7.5 Limitation of Liability. No party shall have any liability to any other party in the event that any Information exchanged or provided pursuant to this Agreement that is an opinion, estimate or forecast, or that is based on an opinion, estimate or forecast, is found to be inaccurate, in the absence of willful misconduct by the party providing such Information. No party shall have any liability to any other party if any Information is destroyed after reasonable best efforts by such party to comply with the provisions of Section 7.4.

Section 7.6 Other Agreements Providing for Exchange of Information. The rights and obligations granted under this Article VII shall be subject to any specific limitations, qualifications or additional provisions on the sharing, exchange or confidential treatment of Information set forth in any Ancillary Agreement.

Section 7.7 Cooperation.

(a) From and after the Distribution, except in the case of an adversarial Action or threatened adversarial Action by any member of the New NGC Group or the HII Group against any member of the other Group (which shall be governed by such discovery rules as may be applicable thereto), each party, upon reasonable written request of the other party, shall use reasonable efforts to cooperate and consult in good faith with the other party to the extent such cooperation and consultation is reasonably necessary with respect to (i) any Action, (ii) this Agreement or any of the Ancillary Agreements or any of
the transactions contemplated hereby or thereby or (iii) any audit, investigation or any other legal requirement, and, upon reasonable written request of the
other party, shall use reasonable efforts to make available to such other party the former, current and future directors, officers, employees, other personnel and
agents of the members of its respective Group (whether as witnesses or otherwise).

(b) Notwithstanding the foregoing, Section 7.7(a) shall not require a party to take any step that would significantly interfere, or that such party
reasonably determines could significantly interfere, with its business.

(c) Except in the case of any Assigned Action or Shared Action, the requesting party shall bear all costs and expenses in connection therewith.

(d) The obligations set forth in this Section 7.7 shall survive until the tenth anniversary thereof, except in the case of any Assigned Action or Shared
Action, in which case such obligations shall survive until the final resolution of such Actions.

Section 7.8 Confidentiality.

(a) Except as provided in Section 8.7 and subject to Section 7.9, each of New NGC and HII, on behalf of itself and each member of its Group, shall hold,
and shall cause its respective directors, officers, employees, agents, accountants, counsel and other advisors and representatives to hold, in strict confidence
and not release or disclose, with at least the same degree of care, but no less than a reasonable degree of care, that it applies to its own business sensitive and
proprietary information, all Information concerning the other Group or its business that is either in its possession (including Information in its possession
prior to the Distribution) or furnished by any member of such other Group or its respective directors, officers, employees, agents, accountants, counsel and
other advisors and representatives at any time pursuant to this Agreement, any Ancillary Agreement or otherwise, and shall not use any such Information
other than for such purposes as shall be expressly permitted hereunder or thereunder, except, in each case, to the extent that such Information is (i) in the
public domain through no fault of such party or any member of such Group or any of their respective directors, officers, employees, agents, accountants,
counsel and other advisors and representatives, (ii) later lawfully acquired from other sources by such party (or any member of such party’s Group), which
sources are not themselves bound by a confidentiality obligation, or (iii) independently generated without reference to any proprietary or confidential
Information of the disclosing party or its Group.

(b) Except as provided in Section 8.7, no receiving party shall release or disclose, or permit to be released or disclosed, any such Information concerning
the other Group to any other Person, except its directors, officers, employees, agents, accountants, counsel and other advisors and representatives who need to
know such Information (who shall be advised of their obligations hereunder with respect to such Information), except in compliance with Section 7.9.

Without limiting the foregoing, when any Information concerning the other Group or its business is no longer needed for the purposes contemplated by this
Agreement or any Ancillary Agreement, each disclosing party will,
Section 7.9 **Protective Arrangements.** Except as provided in Section 8.7, in the event that any party or any member of its Group either determines on the advice of its counsel that it should disclose any Information pursuant to applicable Law or receives any demand under lawful process or from any Governmental Authority or properly constituted arbitral authority to disclose or provide Information of any other party (or any member of any other party’s Group) that is subject to the confidentiality provisions hereof, the Person required to disclose the Information shall give the applicable Person prompt, and to the extent reasonably practicable, prior written notice of such disclosure and an opportunity to contest such disclosure, and shall use reasonable best efforts to cooperate, at the expense of the requesting Person, in seeking any reasonable protective arrangements requested by such Person. In the event that such appropriate protective arrangement or order or other remedy is not obtained, the Person that is required to disclose such Information shall furnish, or cause to be furnished, only that portion of such Information that is legally required to be disclosed and shall use reasonable best efforts to ensure that confidential treatment is accorded such Information. This Section 7.9 shall not apply to the disclosure of any Information to any Governmental Authority that is reasonably necessary to respond to any inquiry by any Governmental Authority.

ARTICLE VIII

**FURTHER ASSURANCES AND ADDITIONAL COVENANTS**

Section 8.1 **Further Assurances.**

(a) In addition to the actions specifically provided for elsewhere in this Agreement, each of the parties shall use its reasonable best efforts, prior to, on and after the Distribution Date, to take, or cause to be taken, all actions, and to do, or cause to be done, all things, reasonably necessary, proper or advisable under applicable Law, regulations and agreements to consummate and make effective the transactions contemplated by this Agreement and the Ancillary Agreements.

(b) Without limiting the foregoing, prior to, on and after the Distribution Date, each party shall cooperate with the other parties, and without any further consideration, but at the expense of the requesting party, to (i) execute and deliver, or use its reasonable best efforts to cause to be executed and delivered, all instruments, including any instruments of conveyance, assignment and transfer as such party may be reasonably requested to execute and deliver to the other party, (ii) make, or cause to be made, all filings with, and to obtain, or cause to be obtained, all consents, approvals or authorizations of, any Governmental Authority or any other Person under any permit, license, agreement, indenture or other instrument, (iii) seek, obtain, or cause to be obtained, any Governmental Approvals or other Consents required to effect the Separation or the Distribution and (iv) take all such other actions as such party may reasonably be requested to take by any other party from time to time, consistent with the terms of this Agreement.
Agreement and the Ancillary Agreements, in order to effectuate the provisions and purposes of this Agreement and the Ancillary Agreements and the transfers of the Shipbuilding Assets and the Retained Assets and the assignment and assumption of the Shipbuilding Liabilities and the Retained Liabilities and the other transactions contemplated hereby and thereby. Without limiting the foregoing, each party will, at the reasonable request, cost and expense of any other party, take such other actions as may be reasonably necessary to vest in such other party good and marketable title, if and to the extent it is practicable to do so.

(c) On or prior to the Distribution Date, New NGC and HII in their respective capacities as direct and indirect stockholders of their respective Subsidiaries, shall each ratify any actions that are reasonably necessary or desirable to be taken by New NGC and HII or any other Subsidiary of New NGC, as the case may be, to effectuate the transactions contemplated by this Agreement.

(d) The parties agree to cooperate, both prior to and after the Distribution, and use reasonable best efforts to take all acts reasonably necessary to accomplish the registration and transfer, to the extent transferable and to the extent that any registration or transfer is required in connection with the Distribution, of any export or import license, permit, technical assistance agreement, manufacturing license agreement and other authorization utilized by either Group, including those granted under the U.S. International Traffic in Arms Regulations, the U.S. Export Administration Regulations, the U.S. Customs and Border Protection Regulation and foreign export/import Laws, as applicable.

Section 8.2 Amendment to NGC Certificate of Incorporation. As promptly as practicable (and in any event within five Business Days) after the Holding Company Reorganization, NGC shall approve an amendment to its Certificate of Incorporation (as amended in the Holding Company Reorganization) to eliminate the requirement for the Northrop Grumman Stockholders to approve certain actions by or involving NGC as required by Section 251(g) of the Delaware General Corporation Law (the “NGC Charter Amendment”) and obtain the approval of HII, as sole stockholder of NGC, of the NGC Charter Amendment. New NGC shall use its reasonable best efforts to (a) include in the proxy statement for the 2012 annual meeting of Northrop Grumman Stockholders (or any earlier meeting of such stockholders as determined by the Northrop Grumman Board) a proposal to approve the NGC Charter Amendment (the “NGC Charter Amendment Proposal”), along with a recommendation of the Northrop Grumman Board that Northrop Grumman Stockholders approve the NGC Charter Amendment Proposal, and (b) solicit the approval of the Northrop Grumman Stockholders of the NGC Charter Amendment Proposal. In the event that the NGC Charter Amendment Proposal is not approved at such annual meeting, New NGC shall use its reasonable best efforts to obtain the approval of the NGC Charter Amendment Proposal at each subsequent annual meeting of Northrop Grumman Stockholders until such approval is obtained.

Section 8.3 Credit Support. Upon a Change of Control Triggering Event prior to the fifth anniversary of the Distribution, HII promptly shall provide notice to New NGC describing in reasonable detail the circumstances surrounding the Change of Control.
Triggering Event. Immediately after such Change of Control Triggering Event, HII shall provide credit support in the form of one or more standby letters of credit in an amount equal to $250 million (the other terms and provisions of which shall be reasonably satisfactory to New NGC) to support HII’s obligations under Section 5.2.

Section 8.4 Non-Compete.

(a) For a period of one year following the Distribution, HII shall not, and shall cause the other members of the HII Group not to, directly or indirectly through any Person or contractual arrangement, whether independently or as part of a team, compete in any way against any member of the New NGC Group or the Team for any work covered by the solicitation described on Schedule 8.4(a) (the “Solicitation”) and shall not take any steps to join any team that is competing or will compete against any member of the New NGC Group or the Team for any of the work covered by the Solicitation.

(b) After the Distribution, New NGC shall cause NGTS to in good faith (i) endeavor to modify the Teaming Agreement to make clear that, except with respect to the restrictions set forth in Section 8.4(a), there are no restrictions on any member of the HII Group and (ii) consider NGSB and its Subsidiaries as a potential subcontractor to the Team for work covered by the Solicitation.

Section 8.5 Intercompany Work Orders. Schedule 8.5 sets forth certain intercompany work orders (“IWOs”) that will be terminated in accordance with Section 2.3. Immediately after the Distribution, NGSB shall issue to NGSC, or such other member of the New NGC Group designated on Schedule 8.5, and NGSC shall issue to NGSB, or such other member of the HII Group designated on Schedule 8.5, as applicable, letter subcontracts for the performance of follow-on work to be performed for the applicable terminated IWOs, as each of the parties shall then deem appropriate (such letter agreements, “Letter Subcontracts”). Each Letter Subcontract shall contain sufficient terms, conditions and rights to permit the designated member of the New NGC Group or the HII Group, as applicable, to perform and be compensated for work performed pending the negotiation of definitive subcontract agreements between the parties with what it concludes is appropriate protection. Following the Distribution, the parties shall negotiate, in good faith, to reach agreement on final price, statement of work, schedule and terms and conditions of definitive subcontracts for the terminated IWOs. The additional provisions set forth on Schedule 8.5 shall apply with respect to the Letter Subcontracts.

Section 8.6 IDIQ Vehicles. The New NGC Group shall use reasonable efforts to continue to make the IDIQ (Indefinite Delivery Indefinite Quantity) vehicles listed on Schedule 8.6 available for the benefit of the HII Group on the terms set forth on Schedule 8.6, for the period that begins on the date of the Distribution until the earlier of (a) the date that is 12 months after the date of the Distribution and (b) the date that the HII Group obtains its own such vehicles. The additional provisions set forth on Schedule 8.6 shall apply with respect to such IDIQ vehicles.
Section 8.7 Government Contract Matters

(a) For the purposes of this Section 8.7 only, the following definitions apply:

(i) “Allowable Cost Audit” means any Defense Contract Audit Agency or other Governmental Authority audit or other negotiations with contracting officers of any Governmental Authority, with respect to any period (or portion thereof) ending at or prior to the Distribution.

(ii) “Settlement Asset” means a net increase in assets due to the final agreement of claims or rights arising out of the settlement of an Allowable Cost Audit, including: (A) final indirect cost and rates for government contracts; (B) Cost Accounting Standards (CAS) matters; (C) defective pricing matters; or (D) advance agreements with the U.S. Government.

(iii) “Settlement Liability” means a net liability due to the final agreement of claims or rights arising out of the settlement of an Allowable Cost Audit, including: (A) final indirect cost and rates for government contracts; (B) Cost Accounting Standards (CAS) matters; (C) defective pricing matters; or (D) advance agreements with the U.S. Government.

A Settlement Asset or Settlement Liability shall be computed as the total impact on the net amount to be paid or received upon final contract settlement, including direct and indirect costs, fees and profits. Where Settlement Assets and Settlement Liabilities arise from the settlement of an Allowable Cost Audit, the baseline costs for calculating Settlement Assets and Settlement Liabilities shall be the costs included in Inter-company Accounting Transfers (IATs) for periods through the Distribution Date.

(b) Shipbuilding Business Cost and Pricing Pre-Distribution. HII is responsible for the settlement of and the consequences of any Settlement Assets or Settlement Liabilities associated with costs and pricing incurred prior to the Distribution by the Shipbuilding Business for government contracts, including those arising from Allowable Cost Audits for work in support of other NGC entities, but not including those Settlement Assets and Settlement Liabilities covered by Section 8.7(c).

(c) New NGC Cost and Pricing Pre-Distribution. New NGC is responsible for the settlement of and the consequences of any Settlement Assets and Settlement Liabilities relating to NGC matters associated with and allocable to government contracts with any member of the HII Group arising out of:

(i) the settlement of final direct and indirect cost rates for costs incurred by NGC prior to the Distribution, including: corporate office expenses, group insurance, post-retirement benefits, pensions, state taxes, insurance, deferred compensation, environmental costs, legal, internal audit, enterprise shared services (ESS) costs, information technology services (ITS), and the settlement of IWOs and other costs incurred by NGC prior to the Distribution;
(ii) Cost Accounting Standards (CAS) Settlement Assets or Settlement Liabilities for allocations made by NGC prior to the Distribution, contracts priced or based upon projected NGC incurred costs prior to the Distribution, or resulting from an Allowable Cost Audit;

(iii) defective pricing Settlement Liabilities for costs incurred by NGC resulting from an Allowable Cost Audit; and

(iv) advance agreements with the U.S. Government.

(d) Reimbursement of Settlement Assets and Settlement Liabilities. New NGC will reimburse HII for any Settlement Liabilities of NGC described in Section 8.7(c) and paid or to be paid to any Governmental Authority by HII upon presentation of documentation deemed adequate by HII and New NGC. HII shall reimburse New NGC for any Settlement Assets of NGC accruing to HII under Section 8.7(c) upon presentation of documentation deemed adequate by HII and New NGC. HII will reimburse New NGC for any Settlement Liabilities of HII under Section 8.7(b) and paid or to be paid to any Governmental Authority by New NGC upon presentation of documentation deemed adequate by New NGC and HII. New NGC shall reimburse HII for any Settlement Assets of HII accruing to New NGC under Section 8.7(b) upon presentation of documentation deemed adequate by HII and New NGC.

(e) Administration of Government Contract Matters. The parties shall make available, upon reasonable notice and at reasonable times during regular business hours, any of the parties’ or their Affiliates’ personnel whose assistance or participation is reasonably required by either New NGC or HII or their Affiliates in connection with any government audit or contract administration activity, including matters involving either party’s indirect cost proposals, the Cost Accounting Standards (CAS) and defective pricing. New NGC and HII will each be responsible for all of its own costs, both direct and indirect, including any required travel, associated with (i) providing access to their respective records and making any reasonable number of copies requested thereof and (ii) making the requested personnel reasonably available to support government contract audits and administrative processes for cost negotiations with the government or other matters, such as administration of Cost Accounting Standards (CAS). In addition, if a Contract Disputes Act dispute concerning a Retained Liability or Retained Asset arises out of or relates to a federal contract held by HII or its Affiliates, HII or its Affiliate, as applicable, shall agree to sponsor a claim against the U.S. Government on behalf of New NGC. In such event, New NGC shall have the right at its expense and in its sole discretion, acting in the name of HII or its Affiliate, to (w) certify or submit any such claim to the appropriate U.S. Government contracting officer; (x) appeal any adverse contracting officer’s final decision or deemed denial of New NGC’s claim to the appropriate agency board of contract appeals or U.S. Court of Federal Claims; (y) control the litigation of any such appeal; and (z) pursue a further appeal to the U.S. Court of Appeals for the Federal Circuit.

(f) Pre-Distribution Cost and Pricing Data. New NGC and HII shall provide each other with updates of pre-Distribution cost and pricing data relevant to each
other, including (i) revisions and updates to cost proposals and (ii) revisions and updates to pre-Distribution “Billing and Bidding Guidance,” consistent with the practices of NGC and NGSB prior to the Distribution.

(g) Release of Contract Audit and Contract Administration Information. Disclosure of cost, pricing and billing information to government auditors and contracting officers in connection with final indirect costs and rates, administration of Cost Accounting Standards (CAS) and advance agreements and other customary contract audit and administration matters are exceptions to the requirements of Sections 7.8 and 7.9 of this Agreement. For avoidance of doubt, disclosure of cost, pricing and billing information in connection with customary contract audit and administration matters by HII or New NGC will not require prior notification to each other.

(h) Litigation Management Agreement. Notwithstanding anything to the contrary in this Agreement or the Litigation Management Agreement, in the event of any conflict or inconsistency between this Section 8.7 and any provision of the Litigation Management Agreement, this Section 8.7 shall control over such inconsistent provision of the Litigation Management Agreement as to the matters specifically addressed in this Section 8.7.

Section 8.8 Software Licenses. From and after the Distribution, New NGC shall provide reasonable cooperation and assistance to HII (and any member of its Group) in connection with the provision of replacement licenses for third-party software licenses that were procured by NGC for the benefit of the HII Group prior to the Distribution but that are included in the New NGC Transferred Assets. Such cooperation shall be at the sole cost and expense of HII. The cooperation and assistance provided for in this Section 8.8 shall not be required to the extent such cooperation and assistance would result in an undue burden on New NGC or would unreasonably interfere with any of its employees’ normal functions and duties.

Section 8.9 Use of Names, Logos and Information.

(a) As soon as practicable (and in any event within five days) after the Distribution, HII shall cause to be filed with the Secretary of State (or other appropriate Governmental Authority) of the states in which its Subsidiaries are located or are doing business, an amendment to their certificates of incorporation or similar governing documents or qualification to do business to change the name of any Subsidiary with “Northrop Grumman” in its name to a new name not confusingly similar to the current name.

(b) As soon as reasonably practicable (and in any event within 90 days) after the Distribution (or such longer or shorter period with respect to each of the items identified on Schedule 8.9(b)), HII shall use reasonable best efforts to remove, and HII shall cause each member of the HII Group to remove, from their websites, and any other publicly distributed material (other than material required to be submitted for the purpose of regulatory filings and other similar documentation), any reference to Northrop Grumman Corporation, and its business lines and plans and any names, logos, or
trademarks associated therewith. HII and each other member of the HII Group shall cease all use of the “Northrop Grumman” name (and any name confusingly similar thereto) and all trademarks and service marks associated therewith as soon as practicable and in any event within 90 days after the Distribution; provided that, if any member of the HII Group is unable to comply with the foregoing requirements of this Section 8.9(b) for reasons outside of its reasonable control, HII may request NGC to grant an extension of time beyond such 90-day period within which to cease all use of the “Northrop Grumman” name, as reasonably necessary for such member of the HII Group to cease all such use, and New NGC agrees not to unreasonably withhold or delay the granting of any such requested extension. Nothing in this Section 8.9(b) shall preclude HII or its Subsidiaries from using the Northrop Grumman name to indicate that HII and members of the HII Group were formerly associated with Northrop Grumman Corporation, or from referring to Northrop Grumman Corporation by its name for non-trademark and non-branding purposes as is permitted by applicable Law.

(c) HII shall not, and shall cause each member of the HII Group not to, take any action, purport to take any action or otherwise hold itself out as having any authority to act on behalf of or represent in any way any member of the New NGC Group. HII shall indemnify, defend and hold harmless each of the New NGC Indemnitees from and against any and all Liabilities of the New NGC Indemnitees relating to, arising out of or resulting from a breach of this Section 8.9(c).

ARTICLE IX
TERMINATION

Section 9.1 Termination. This Agreement may be terminated by the Northrop Grumman Board at any time prior to the Distribution.

Section 9.2 Effect of Termination. In the event of any termination of this Agreement prior to the Distribution, no party (or any of its directors or officers) shall have any Liability or further obligation to any other party with respect to this Agreement.

ARTICLE X
DISPUTE RESOLUTION

Section 10.1 Negotiation. In the event of a controversy, dispute or claim arising out of, in connection with, or in relation to the interpretation, performance, nonperformance, validity or breach of this Agreement or any Ancillary Agreement or any other agreement entered into by any New NGC Entity or HII Entity pursuant to this Agreement or any Ancillary Agreement or otherwise arising out of, or in any way related to this Agreement or any Ancillary Agreement or any other agreement entered into by any New NGC Entity or any HII Entity pursuant to this Agreement or any Ancillary Agreement or the transactions contemplated hereby or thereby, including any claim based on contract, tort, statute or constitution (but excluding (i) any controversy, dispute or claim brought by or against a third party or involving a third party who would be subject to joinder as described in Federal Rule of Civil Procedure 19 and arising out of any contract, including this Agreement or any Ancillary Agreement, and/or relating to the use or lease of
real property if any third party is a claimant or defendant in such controversy, dispute or claim and (ii) any dispute under any of the IP License Agreement, the Tax Matters Agreement, the Letter Subcontracts and the Ingalls Indemnity Agreement, which shall be subject to the provisions contained therein ((i) and (ii) collectively, “Excluded Disputes”) (collectively, “Agreement Disputes”), one or more senior executive officers of New NGC and HII, with authority to settle, designated by each of New NGC and HII, shall negotiate to settle such Agreement Dispute. Unless otherwise agreed by the relevant parties in writing, if within 45 days from the time of receipt by the New NGC Entity or the HII Entity of the written notice of an Agreement Dispute (“Dispute Notice”), the Agreement Dispute has not been resolved, the Agreement Dispute shall be resolved in accordance with Section 10.2. In the event of any arbitration or litigation in accordance with this Article X, the relevant New NGC Entities and HII Entities shall not assert any defenses or similar to statute of limitations and laches that arise after the date of receipt of the Dispute Notice if the Dispute Notice was served prior to the expiration of the applicable limitations period and provided the prosecuting party complies with the contractual time period or deadline under this Agreement or any Ancillary Agreement to which such Agreement Dispute relates.

Section 10.2 Mediation. If, within 45 days after delivery of a Dispute Notice, a negotiated resolution of the Agreement Dispute under Section 10.1 has not been reached, New NGC and HII agree to seek to settle the Agreement Dispute by mediation administered by the American Arbitration Association (“AAA”) under its Commercial Mediation Procedures, and to bear equally the costs of the mediation; provided, however, that each New NGC Entity and HII Entity shall bear its own costs in connection with such mediation. If the Agreement Dispute has not been resolved through mediation within 90 days after the date of service of the Dispute Notice, or such longer period as the parties may mutually agree in writing, each party shall be entitled to refer the dispute to arbitration in accordance with Section 10.3.

Section 10.3 Arbitration. If the Agreement Dispute has not been resolved for any reason within 90 days after the date of service of the Dispute Notice, such Agreement Dispute shall be settled, at the request of any relevant party, by arbitration administered by the AAA under its Commercial Arbitration Rules, conducted in New York City, except as modified herein (the “Rules”). There shall be three arbitrators. If there are only two parties to the arbitration, each of New NGC and HII shall appoint one arbitrator within 20 days after receipt by respondent of a copy of the demand. The two party-appointed arbitrators shall have 20 days from the appointment of the second arbitrator to agree on a third arbitrator who shall chair the arbitral tribunal. Any arbitrator not timely appointed by the parties under this Section 10.3 shall be appointed in accordance with AAA Rule R. 11, and in any such procedure, each party shall be given four strikes, excluding strikes for cause. If there are multiple claimants and/or multiple respondents to the effect that there are more than three parties to the arbitration, all claimants and/or all respondents shall attempt to agree upon their respective appointments. If such multiple parties fail to nominate an arbitrator within 30 days, the AAA shall appoint an arbitrator on their behalf. In such circumstances, any existing nomination of the arbitrator chosen by the party or parties on the other side of the proposed arbitration shall be unaffected, and the remaining arbitrators shall be appointed in accordance with AAA Rules 12 and 13. Any controversy
concerning whether an Agreement Dispute is an arbitrable Agreement Dispute, whether arbitration has been waived, whether an assignee of this Agreement is bound to arbitrate, or as to the interpretation or enforceability of this Article X shall be determined by the arbitrators. New NGC and HII intend that the provisions to arbitrate set forth herein be valid, enforceable and irrevocable, and any award rendered by the arbitrators shall be final and binding on the parties. New NGC and HII agree to comply and cause the members of their applicable Group to comply with any award made in any such arbitration proceedings and agree to enforcement of or entry of judgment upon such award, in any court of competent jurisdiction, including any New York State or federal court sitting in the Borough of Manhattan in The City of New York. The arbitrators shall be entitled, if appropriate, to award monetary damages and other remedies, subject to the provisions of Section 5.9. The parties shall use their reasonable best efforts to encourage the arbitrators to resolve any arbitration related to any Agreement Dispute as promptly as practicable.

Section 10.4 Confidentiality of Arbitral Award and Documents and Information Exchanged and Submitted in the Course of Arbitration. Subject to applicable Law, including disclosure or reporting requirements, or the parties’ agreement, the parties shall maintain the confidentiality of the arbitration. Unless agreed to by all the parties or required by applicable Law, including disclosure or reporting requirements, the arbitrators and the parties shall maintain the confidentiality of all information, records, reports, or other documents obtained in the course of the arbitration, and of all awards, orders, or other arbitral decisions rendered by the arbitrators.

Section 10.5 Treatment of Negotiations and Mediation. Without limiting the provisions of the Rules, unless otherwise agreed in writing or permitted by this Agreement, New NGC and HII shall keep, and shall cause the members of their applicable Group to keep confidential all matters relating to this Article X and any negotiation, mediation, conference, arbitration, or discussion pursuant to this Article X shall be treated as compromise and settlement negotiations for purposes of Rule 408 of the Federal Rules of Evidence and comparable state rules; provided, that such matters may be disclosed (a) to the extent reasonably necessary in any proceeding brought to enforce the award or for entry of a judgment upon the award and (b) to the extent otherwise required by applicable Law, including disclosure or reporting requirements. Nothing said or disclosed, nor any document produced, in the course of any negotiations, conferences and discussions under Sections 10.1 and 10.2 that is not otherwise independently discoverable shall be offered or received as evidence or used for impeachment or for any other purpose in any current or future arbitration.

Section 10.6 Continuity of Service and Performance. Unless otherwise agreed in writing, New NGC and HII shall continue to provide service and honor all other commitments under this Agreement and each Ancillary Agreement during the course of dispute resolution pursuant to the provisions of this Article X with respect to all matters not subject to such dispute resolution.

Section 10.7 Consolidation. The arbitrators may consolidate an arbitration under this Agreement with any arbitration arising under or relating to the Ancillary Agreements or any other agreement between the parties entered into pursuant hereto or thereto, as the
Section 10.8 Submission to Jurisdiction. Each of the parties to this Agreement irrevocably agrees that any legal action or proceeding arising out of or relating to any Excluded Dispute brought by any other party to this Agreement or its successors or assigns shall be brought and determined in any federal court sitting in the Borough of Manhattan in The City of New York (or, if such court lacks subject matter jurisdiction, in any appropriate New York State or federal court), and each of the parties to this Agreement hereby irrevocably submits to the exclusive jurisdiction of the aforesaid courts for itself and with respect to its property, generally and unconditionally, with regard to any Excluded Dispute. Each of the parties to this Agreement agrees not to commence any action, suit or proceeding relating thereto except in the courts described above in New York, other than actions in any court of competent jurisdiction to enforce any judgment, decree or award rendered by any such court in New York as described in this Section 10.8. Each of the parties to this Agreement hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, in any action or proceeding arising out of or relating to the Excluded Dispute, (a) any claim that it is not personally subject to the jurisdiction of the courts in New York as described herein, (b) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) and (c) that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper or (iii) the subject matter of the Excluded Dispute, may not be enforced in or by such courts.

Section 10.9 Enforcement. Solely with respect to the Excluded Disputes, the parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement and the Ancillary Agreements were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the parties shall be entitled to specific performance of the terms hereof and thereof, including an injunction or injunctions to prevent breaches of this Agreement and the Ancillary Agreements and to enforce specifically the terms and provisions of this Agreement and the Ancillary Agreements in any New York State or federal court sitting in the Borough of Manhattan in The City of New York (or, if such court lacks subject matter jurisdiction, in any appropriate New York State or federal court), this being in addition to any other remedy to which such party is entitled at law or in equity. Each of the parties hereby further waives (a) any defense in any action for specific performance that a remedy at law would be adequate and (b) any requirement under any Law to post security as a prerequisite to obtaining equitable relief.
ARTICLE XI
MISCELLANEOUS

Section 11.1 Corporate Power. New NGC represents on behalf of itself and each other New NGC Entity and HII represents on behalf of itself and each other HII Entity, and NGC represents on behalf of itself, that:

(a) each such Person is a corporation or other entity duly incorporated or formed, validly existing and in good standing under the Laws of the state or other jurisdiction of its incorporation or formation, and has all material corporate or other similar powers required to carry on its business as currently conducted;

(b) each such Person has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform this Agreement and each other Ancillary Agreement to which it is a party and to consummate the transactions contemplated hereby and thereby; and

(c) this Agreement and each Ancillary Agreement to which it is a party has been duly executed and delivered by it and constitutes a valid and binding agreement of such Person enforceable in accordance with the terms hereof and thereof.

Section 11.2 Coordination with Certain Ancillary Agreements; Conflicts.

(a) Notwithstanding anything in this Agreement to the contrary, (i) the Ingalls Indemnity Agreement shall be the exclusive agreement among the parties for the matters expressly set forth therein following the Distribution and (ii) except for those Tax matters specifically addressed in this Agreement or in any Ancillary Agreement, the Tax Matters Agreement shall be the exclusive agreement among the parties with respect to all Tax matters, including dispute resolution and indemnification and payments among the parties in respect of Tax matters.

(b) Except as provided in Section 8.7(h), in the event of any conflict or inconsistency between any provision of any of the Ancillary Agreements and any provision of this Agreement, the applicable Ancillary Agreement shall control over the inconsistent provisions of this Agreement as to the matters specifically addressed in such Ancillary Agreement.

Section 11.3 Expenses.

(a) Except as expressly set forth in this Agreement or in any Ancillary Agreement, all fees, costs and expenses paid or incurred in connection with the Separation and the Distribution and the performance of this Agreement and any Ancillary Agreement, whether performed by a third party or internally, will be paid by the party incurring such fees or expenses, whether or not the Distribution is consummated, or as otherwise agreed by the parties. For the avoidance of doubt, (i) New NGC will be responsible for any transfer fees (including any pricing increases) related to the transfer of any Retained Assets (including any transferred third-party software licenses) to any member of the New NGC Group and the cost of any replacement for any Asset that is not a Retained Asset.
(including any replacement third-party software licenses), (ii) HII will be responsible for any fees to the NYSE and any transfer fees (including any pricing increases) related to the transfer of any Shipbuilding Assets (including any transferred third-party software licenses) to any member of the HII Group and the cost of any replacement for any Asset that is not a Shipbuilding Asset (including any replacement third-party software licenses) and (iii) New NGC shall bear the costs and expenses directly related to the mailing of the Information Statement to NGC stockholders and the fees and expenses of the Agent in connection with the Distribution.

(b) Except where context otherwise requires, references in this Agreement and the Litigation Management Agreement to “costs and expenses” include the relevant party’s allocated costs of employees (including in-house counsel and other personnel), fringe benefit costs, general and administrative costs, overhead, document processing vendors, litigation support, including e-discovery consultants, testifying and non-testifying experts, and other consultants.

Section 11.4 Amendment and Modification. This Agreement and the Ancillary Agreements may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing specifically designated as an amendment hereto, signed on behalf of each party.

Section 11.5 Waiver. No failure or delay of any party in exercising any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, or any course of conduct, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the parties hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have hereunder. Any agreement on the part of any party to any such waiver shall be valid only if set forth in a written instrument executed and delivered by a duly authorized officer on behalf of such party.

Section 11.6 Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or if by facsimile, upon written confirmation of receipt by facsimile, e-mail or otherwise, (b) on the first Business Day following the date of dispatch if delivered utilizing a next-day service by a recognized next-day courier or (c) on the earlier of confirmed receipt or the fifth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered to the addresses set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:
(i) if to New NGC or any other New NGC Entity prior to the date on which New NGC relocates its corporate headquarters, to both:

Northrop Grumman Corporation  
1840 Century Park East  
Los Angeles, CA 90067-2199  
Attention: General Counsel  
Facsimile: (310) 556-4910

and:

Northrop Grumman Corporation  
1840 Century Park East  
Los Angeles, CA 90067-2199  
Attention: Treasurer  
Facsimile: (310) 201-3088

(ii) if to New NGC or any other New NGC Entity on or after the date on which New NGC relocates its corporate headquarters, to both:

Northrop Grumman Corporation  
2980 Fairview Park Drive  
Falls Church, VA 22042  
Attention: General Counsel  
Facsimile: (703) 875-1852

and:

Northrop Grumman Corporation  
2980 Fairview Park Drive  
Falls Church, VA 22042  
Attention: Treasurer  
Facsimile: to be provided at relevant time

(iii) if to HII or any other HII Entity, to:

Huntington Ingalls Industries, Inc.  
4101 Washington Avenue  
Newport News, VA 23607  
Attention: Office of the General Counsel  
Facsimile: (757) 688-1408

with a copy (which shall not constitute notice) to:

Huntington Ingalls Industries, Inc.  
4101 Washington Avenue
Section 11.7 Interpretation. When a reference is made in this Agreement to a Section, Article or Exhibit such reference shall be to a Section, Article, Annex or Exhibit of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement or in any Exhibit are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Any capitalized terms used in any Schedule, Annex or Exhibit but not otherwise defined therein shall have the meaning as defined in this Agreement or the Ancillary Agreement to which such Schedule, Annex or Exhibit is attached, as applicable. All Schedules, Annexes and Exhibits annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth herein. The word “including” and words of similar import when used in this Agreement shall mean “including, without limitation,” unless otherwise specified. The word “day” when used in this Agreement shall mean “calendar day,” unless otherwise specified.

Section 11.8 Entire Agreement. This Agreement and the Ancillary Agreements and the Annexes, Exhibits, Schedules and Appendices hereto and thereto constitute the entire agreement, and supersede all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings among the parties with respect to the subject matter hereof. None of this Agreement or any of the Ancillary Agreements shall be deemed to contain or imply any restriction, covenant, representation, warranty, agreement or undertaking of any party with respect to the transactions contemplated hereby and thereby other than those expressly set forth herein or therein or in any document required to be delivered hereunder or thereunder. Notwithstanding any oral agreement or course of action of the parties or their representatives to the contrary, no party to this Agreement shall be under any legal obligation to enter into or complete the transactions contemplated hereby unless and until this Agreement shall have been executed and delivered by each of the parties.

Section 11.9 No Third Party Beneficiaries. Except for the indemnification rights under this Agreement of any New NGC Indemnitee (other than any current, former or future employee of any New NGC Entity that is not or was not, as of any relevant time of determination, also a current or former officer of any New NGC Entity) or HII Indemnitee (other than any current, former or future employee of any HII Entity that is not or was not, as of any relevant time of determination, also a current or former officer of any HII Entity) in their respective capacities as such, and except as specifically provided in the Employee Matters Agreement, nothing in this Agreement or the Ancillary Agreements, express or implied, is intended to or shall confer upon any Person other than the parties and their respective successors and permitted assigns any legal or equitable right, benefit or remedy of any nature under or by reason of this Agreement or the Ancillary Agreements.
Section 11.10 Governing Law. This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal Laws of the State of New York, without regard to the Laws of any other jurisdiction that might be applied because of the conflicts of laws principles of the State of New York (other than Section 5-1401 of the New York General Obligations Law).

Section 11.11 Assignment. Except as specifically provided in any Ancillary Agreement, none of this Agreement, any of the Ancillary Agreements or any of the rights, interests or obligations hereunder or thereunder may be assigned or delegated, in whole or in part, by operation of law or otherwise, by any party without the prior written consent of the other parties, and any such assignment without such prior written consent shall be null and void. If any party (or any of its successors or permitted assigns) (a) shall consolidate with or merge into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (b) shall transfer all or substantially all of its properties and/or assets to any Person, then, and in each such case, the party (or its successors or permitted assigns, as applicable) shall ensure that such Person assumes all of the obligations of such party (or its successors or permitted assigns, as applicable) under this Agreement and all applicable Ancillary Agreements.

Section 11.12 Severability. Whenever possible, each provision or portion of any provision of this Agreement and the Ancillary Agreements shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision or portion of any provision of this Agreement or the Ancillary Agreements is held to be invalid, illegal or unenforceable in any respect under any applicable Law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or portion of any provision in such jurisdiction, and this Agreement or the Ancillary Agreements shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein.

Section 11.13 Waiver of Jury Trial. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OF THE ANCILLARY AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

Section 11.14 Counterparts. This Agreement and each Ancillary Agreement may be executed in one or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

Section 11.15 Facsimile Signature. This Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.

Section 11.16 Payment. Except as expressly provided in this Agreement or any Ancillary Agreement, any amount payable pursuant to this Agreement or any Ancillary Agreement by one party (or any member of such Party’s Group) shall be paid within 30
days after presentation of an invoice or a written demand by the party entitled to receive such payments. Such demand shall include documentation setting forth the basis for the amount payable. Any payment not made within 30 days of the written demand for such payment shall accrue interest at a rate per annum equal to the rate in effect for underpayments pursuant to Section 6621 of the Code from such date.

Section 11.17 Parties’ Obligations. Except where specifically provided otherwise, a party’s obligations under this Agreement shall include obligations of its employees and Subsidiaries. Each of NGSB and NGSC hereby agrees to take any actions, or refrain from taking any actions, to the extent required pursuant to this Agreement or any of the Ancillary Agreements.

[The remainder of this page is intentionally left blank.]
IN WITNESS WHEREOF, the parties have caused this Separation and Distribution Agreement to be executed by their duly authorized representatives.

NORTHROP GRUMMAN CORPORATION
By: /s/ Mark Rabinowitz
    Name: Mark Rabinowitz
    Title: Corporate Vice President & Treasurer

NEW P, INC.
By: /s/ Mark Rabinowitz
    Name: Mark Rabinowitz
    Title: President & Treasurer

HUNTINGTON INGALLS INDUSTRIES, INC.
By: /s/ C. Michael Petters
    Name: C. Michael Petters
    Title: President and Chief Executive Officer

NORTHROP GRUMMAN SHIPBUILDING, INC.
By: /s/ C. Michael Petters
    Name: C. Michael Petters
    Title: President and Chief Executive Officer

NORTHROP GRUMMAN SYSTEMS CORPORATION
By: /s/ Mark Rabinowitz
    Name: Mark Rabinowitz
    Title: President and Treasurer

[Signature Page to Separation and Distribution Agreement]
Annex I — Internal Reorganization

The Internal Reorganization will take place in the following steps, all of which have occurred or will occur prior to the Distribution in the following order, unless otherwise determined by the Northrop Grumman Board:

Step 1: NGC has formed (a) New NGC, (b) HII, (c) Titan Holdings I, LLC, a Delaware limited liability company ("Holdings LLC"), (d) Titan Holdings II, L.P., a Delaware limited partnership ("Holdings LP"), and (e) Merger Sub. New NGC initially will own all the stock of HII, the sole membership interest in Holdings LLC and the sole general partner interest in Holdings LP. Holdings LLC will initially own the sole limited partner interest in Holdings LP. Holdings LP will initially own all of the stock of Merger Sub.

Step 2: Pursuant to that certain Transfer of Guarantees, dated as of March 28, 2011, between NGC and HII, NGC transferred to HII the Navy Guarantees and HII assumed and agreed to perform all of the obligations and liabilities of NGC under the Navy Guarantees.

Step 3: NGC will contribute all of the HII Transferred Assets to NGSB (or to one or more members of the HII Group other than HII) and all of the New NGC Transferred Assets to NGSC (or to one or more members of the New NGC Group other than New NGC). New NGC (or one or more other members of the New NGC Group) will assume all of the Retained Liabilities of NGC except for NGC’s obligations under the Amended and Restated Credit Agreement, dated as of August 10, 2007, between NGC, the lenders party thereto from time to time, JPMorgan Chase Bank, N.A. and the other parties named therein (the “NGC Credit Agreement”), and HII (or one or more other members of the HII Group) will assume all of the Shipbuilding Liabilities of NGC except NGC’s obligations under the guarantee of the GO-Zone Bonds (the “GO-Zone Bonds Guarantee”).

Step 4: Each of NGSB’s Subsidiaries will distribute to NGSB all of the open account debt owed to it by NGSC, if any. NGSB will distribute to NGC all of the open account debt owed to it by NGSC, including such debt distributed to it by its Subsidiaries (all such debt, the “Intercompany Debt Receivable”).

Step 5: The parties will consummate the Holding Company Reorganization.

Step 6: New NGC will contribute its membership interest in Holdings LLC and its partnership interest in Holdings LP to HII.

Step 7: NGC will distribute (the "NGC Distribution") to Holdings LP all of NGC’s Assets (including the stock of NGSC and NGSB), and Holdings LP will assume all of NGC’s Liabilities and other obligations (including NGC’s
obligations under the NGC Credit Agreement) except NGC’s obligations under the GO-Zone Bonds Guarantee.

Step 8: Concurrent with the NGC Distribution, HII will enter into the P&I Agreements pursuant to which HII will agree to perform all of NGC’s obligations under the Navy Guarantees, if any, and the GO-Zone Bonds Guarantee and indemnify NGC for any costs arising from such obligations.

Step 9: Holdings LP will distribute to Holdings LLC, its limited partner, and HII, its general partner, all of the stock of NGSB and NGC (the “Holdings LP Distribution”).

Step 10: Holdings LLC will distribute to HII the shares of NGC and NGSB that it received in the Holdings LP Distribution.

Step 11: HII will receive the net cash proceeds from the HII Debt. $300,000,000 of such net cash proceeds will be retained by HII (the “Retained Cash”). Such cash proceeds less the Retained Cash are referred to as the “Transferred Debt Proceeds”.

Step 12: HII will contribute (a) to Holdings LLC a portion of the Transferred Debt Proceeds equal to Holdings LLC’s proportionate interest in Holdings LP (approximately $714,500,000) and (b) to Holdings LP the remaining amount of the Transferred Debt Proceeds (approximately $714,500,000).

Step 13: Holdings LLC will contribute to Holdings LP the amount of the Transferred Debt Proceeds contributed to it by HII, and Holdings LP will contribute to NGSC the entire amount of the Transferred Debt Proceeds and the Intercompany Debt Receivable (such contributions, together with the contributions in Step 12, the “HII Contribution”).

Step 14: HII will distribute all of its membership interest in Holdings LLC and all of its partnership interest in Holdings LP to New NGC.
EMPLOYEE MATTERS AGREEMENT

among

NORTHROP GRUMMAN CORPORATION,
NEW P, INC.,
and

HUNTINGTON INGALLS INDUSTRIES, INC.

Dated as of March 29, 2011
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EMPLOYEE MATTERS AGREEMENT


RECITALS

A. The parties to this Employee Matters Agreement, together with certain Subsidiaries of NGC, have entered into the Separation and Distribution Agreement (the “Separation Agreement”), dated as of the date hereof, pursuant to which New NGC intends to distribute to its stockholders its entire interest in HII by way of a stock dividend.

B. The parties wish to set forth their agreements as to certain matters regarding employment, compensation and employee benefits.

AGREEMENT

In consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Table of Definitions. The following terms have the meanings set forth on the pages referenced below:

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Section 1.2 Certain Defined Terms. For the purposes of this Employee Matters Agreement:

“Benefit Plan” means, with respect to an entity, each plan, program, policy, agreement, arrangement or understanding that is a deferred compensation, executive compensation, incentive bonus or other bonus, pension, profit sharing, savings, retirement, severance pay, salary continuation, life, death benefit, health, hospitalization, sick leave, vacation pay, disability or accident insurance or other employee benefit plan, program, agreement or arrangement, including any “employee benefit plan” (as defined in Section 3(3) of ERISA) sponsored, maintained or contributed to by such entity or to which such entity is a party or under which such entity has any obligation; provided that no New NGC Equity Compensation Award, nor any plan under which any such New NGC Equity Compensation Award is granted, shall constitute a “Benefit Plan” under this Employee Matters Agreement. In addition, no Employment Agreement shall constitute a Benefit Plan for purposes hereof.

“Employment Agreement” means any individual employment, retention, consulting, change in control, split dollar life insurance, sale bonus, incentive bonus, severance or other individual compensatory agreement between any current or former employee and NGC or any of its Affiliates or a member of the New NGC Group or the HII Group.


“HII Benefit Plans” means the HII Retained Benefit Plans and the HII Spinoff Plans.
“HII Employee” means each individual who, as of the Distribution, is employed by a member of the HII Group (including, for the avoidance of doubt, any such individual who is on a leave of absence, whether paid or unpaid, from which such employee is permitted to return (in accordance with HII’s personnel policies)).

“HII Employee Liabilities” means all potential or actual employment and employee benefits-related or other Liabilities, whether arising before, on or after the Distribution Date, with respect to: (a) HII Employees and HII Retirees and any other persons employed by the HII Group (and their respective Plan Payees, including, without limitation, for any deferred vested benefits under any Benefit Plan); (b) any other individuals asserting rights or obligations stemming from their services to or in connection with the Shipbuilding Business; (c) HII Employment Agreements; and (d) the HII Benefit Plans (including, for avoidance of doubt, Liabilities that arise or are alleged to have arisen prior to Distribution under a Split Plan from which an HII Spinoff Plan assumed Liabilities hereunder).

“HII Employment Agreement” means any Employment Agreement to which any member of the HII Group is a party and to which no member of the New NGC Group or NGC is a party. The HII Employment Agreements shall be the sole responsibility of one or more members of the HII Group following the Distribution.

“HII Group” is defined in the Separation Agreement, but for convenience is duplicated here, provided that the definition in the Separation Agreement controls. HII Group means HII and each Person that will be a direct or indirect Subsidiary of HII immediately prior to the Distribution (but after giving effect to the Internal Reorganization) and each Person that is or becomes a member of the HII Group after the Distribution, including in all circumstances the predecessor and successor entities of each such Person. For the purposes of this Employee Matters Agreement, (a) New NGC shall not be deemed to be a successor entity of NGC and (b) NGC shall not be deemed to be a member of the HII Group.

“HII Retained Benefit Plan” means any Benefit Plan that, as of the Distribution, is sponsored or maintained solely by any member of the HII Group. HII Retained Benefit Plan shall also mean any multiemployer plan (as defined in Section 3(37) of ERISA) to which any member of the HII Group contributes for the benefit of its employees. For the avoidance of doubt, no member of the HII Group shall be deemed to sponsor or maintain any Benefit Plan if its relationship to such Benefit Plan is solely to administer such Benefit Plan or provide to New NGC any reimbursement in respect of such Benefit Plan. The HII Retained Benefit Plans (excluding any multiemployer plans) shall be sponsored solely by one or more members of the HII Group following the Distribution.

“HII Retiree” means each former employee of NGC or its Affiliates (or the predecessors thereof), including, without limitation, any such individual with deferred vested benefits under any Benefit Plan, whose last employment prior to the Distribution was with the HII Group or the Shipbuilding Business.

“HII Welfare Plan” means each HII Benefit Plan that is a Welfare Plan.

“New NGC Benefit Plan” means any Benefit Plan sponsored or maintained by any member of the New NGC Group or NGC. New NGC Benefit Plan shall also mean any multiemployer plan (as defined in Section 3(37) of ERISA) to which any member of the New NGC Group or NGC contributes for the benefit of its employees. For the avoidance of doubt, no member of the New NGC Group shall be deemed to sponsor or maintain any Benefit Plan if its relationship to such Benefit Plan is solely to administer such Benefit Plan or provide to HII any reimbursement in respect of such Benefit Plan. The New NGC Benefit Plans (excluding any multiemployer plans) shall be those Benefit Plans sponsored solely by one or more members of the New NGC Group following the Distribution.

“New NGC Employee Liabilities” means all potential or actual employment and employee benefits-related or other Liabilities with respect to current employees and former employees of NGC and the New NGC Group, whether arising before, on or after the Distribution Date, but excluding any HII Employee Liabilities.

“New NGC Employment Agreement” means any Employment Agreement to which any member of the New NGC Group or NGC is a party and to which no member of the HII Group (other than NGC) is or was a party or beneficiary. The New NGC Employment Agreements shall be the responsibility of one or more members of the New NGC Group following the Distribution.

“New NGC Group” is defined in the Separation Agreement, but for convenience is duplicated here, provided that the definition in the Separation Agreement controls. New NGC Group means New NGC and each Person that will be a direct or indirect Subsidiary of New NGC immediately after the Distribution and each Person that is or becomes a member of the New NGC Group after the Distribution, including in all circumstances the predecessor and successor entities of each such Person. For the purposes of this Employee Matters Agreement, NGC shall not be deemed to be a predecessor entity of New NGC.

“New NGC Retiree” means each former employee of NGC, any of its Affiliates and the New NGC Group, who is not an HII Retiree.


“Plan Payee” means, as to an individual who participates in a Benefit Plan, such individual’s dependents, beneficiaries, alternate payees and alternate recipients, as applicable under such Benefit Plan.

“Welfare Plan” means each Benefit Plan that provides life insurance, health care, dental care, vision care, employee assistance programs (EAP), accidental death and dismemberment insurance, disability, severance, vacation or other group welfare or fringe benefits and is an “employee welfare benefit plan” as described in Section 3(1) of ERISA.

“Workers’ Compensation Event” means the event, injury, illness or condition giving rise to a workers’ compensation claim.

Section 1.3 Other Capitalized Terms. Capitalized terms not defined in this Employee Matters Agreement shall have the meanings ascribed to them in the Separation Agreement.

ARTICLE II
GENERAL PRINCIPLES; EMPLOYEE TRANSFERS

Section 2.1 Assumption of HII Employee Liabilities. Effective as of the Distribution, except as otherwise specifically provided in this Employee Matters Agreement, (a) the HII Group shall be solely responsible for all HII Employee Liabilities and the New NGC Group shall not retain any HII Employee Liabilities and (b) the New NGC Group shall be solely responsible for all New NGC Employee Liabilities and the HII Group shall not retain any New NGC Employee Liabilities.

Section 2.2 Allocation of Liabilities With Respect to Benefit Plans and Employment Agreements. Except as otherwise specifically provided in this Employee Matters Agreement, effective as of the Distribution, each HII Employee and HII Retiree (and each such individual’s Plan Payees) shall cease participation in all New NGC Benefit Plans and, as of such time, HII shall or shall cause another member of the HII Group to have in effect such HII Benefit Plans as are necessary to comply with its obligations pursuant to this Employee Matters Agreement.

(a) Effective as of the Distribution, except as otherwise specifically provided in this Employee Matters Agreement, New NGC shall, or shall cause one or more members of the New NGC Group to, retain, pay, perform, fulfill and discharge in due course all Liabilities arising out of or relating to all New NGC Employment Agreements.

(b) Effective as of the Distribution, except as otherwise specifically provided in this Employee Matters Agreement, HII shall, or shall cause one or more members of the HII Group to, retain, pay, perform, fulfill and discharge in due course (i) all Liabilities arising out of or relating to all HII Benefit Plans, (ii) all Liabilities arising out of or relating to all HII Employment Agreements, (iii) all Liabilities arising out of or relating to the Converted HII Equity Compensation Awards (including, without limitation, any and all Liabilities with respect to any equity award of NGC or New NGC that, through assumption and conversion, becomes a Converted HII Equity Compensation Award, as well as any and all Liabilities with respect to the assumption and conversion of such an award), and (iv) all Liabilities with respect to the employment, service, termination of employment or termination of service of all HII Employees, HII Retirees, their respective Plan Payees, and other service providers (including any individual who is, or was, an
independent contractor, temporary employee, temporary service worker, consultant, freelancer, agency employee, leased employee, on-call worker, incidental worker, or nonpayroll worker of any member of the HII Group or in any other employment, non-employment, or retainer arrangement, or relationship with any member of the HII Group), in each case to the extent arising in connection with or as a result of employment with or the performance of services for any member of the HII Group or the Shipbuilding Business. For the avoidance of doubt, from and after the Distribution, in no event will HII be required to issue, grant or award any compensation relating to HII Common Stock to any employee who is a member of the New NGC Group, and, subject to the treatment of the New NGC Equity Compensation Awards that are outstanding as of the Distribution and held by any HII Employee or HII Retiree as provided in Section 8.1, in no event will New NGC be required to issue, grant or award any compensation relating to New NGC Common Stock to any employee who is a member of the HII Group.

Section 2.3 HII Benefit Plans and HII Employment Agreements. Schedule 2.3 sets forth a complete list of all material HII Benefit Plans and HII Employment Agreements. Effective as of the Distribution, HII or another member of the HII Group shall, as applicable in accordance with this Employee Matters Agreement, adopt, continue or, to the extent necessary, assume sponsorship of each HII Benefit Plan and HII Employment Agreement, and the New NGC Group shall use reasonable efforts to transfer or cause to be transferred to HII all plan documents, trust agreements, insurance policies, administrative agreements, and other agreements and instruments reasonably required for the maintenance and administration of the HII Benefit Plans and the HII Employment Agreements. To facilitate HII’s establishment of the HII Spinoff Plans, New NGC shall, prior to Distribution, provide HII with draft plan documents of the HII Spinoff Plans for HII’s review and consideration. New NGC shall endeavor to ensure that such draft plan documents accurately replicate the material terms of the respective Split DC Plans, Split DB Plans, Split Welfare Plans and Split Nonqualified Plans, but New NGC makes no representation or warranty that the draft plan documents do so or that draft plan documents satisfy any applicable legal requirements and New NGC expressly disclaims any and all liability related to the draft HII Spinoff Plans.

Effective on the Distribution Date, the HII Group shall be exclusively responsible for administering each HII Benefit Plan and each HII Employment Agreement in accordance with its terms and for all obligations and liabilities with respect to the HII Benefit Plans and HII Employment Agreements and all benefits owed to participants in the HII Benefit Plans and individuals who are parties to the HII Employment Agreements, whether arising before, on or after the Distribution Date. Except as specifically provided herein, HII shall not assume sponsorship, maintenance or administration of any Benefit Plan or Employment Agreement that is not an HII Benefit Plan or an HII Employment Agreement or receive or assume any assets or liabilities in connection with any such Benefit Plan or Employment Agreement.

Section 2.4 Plan-Related Litigation. Notwithstanding anything herein to the contrary, the management of the defense of all litigation related to the New NGC Benefit Plans, the New NGC Employment Agreements, the HII Benefit Plans and the HII Employment Agreements shall be governed by the Litigation Management Agreement, and
this Employee Matters Agreement shall govern the allocation of Liabilities related to any such litigation.

Section 2.5 Vacation and Sick Pay. HII shall assume responsibility for accrued vacation and sick pay and any other paid time off attributable to HII Employees and HII Retirees as of the Distribution, or Applicable Transfer Date.

Section 2.6 Employee Transfers. Upon mutual agreement of HII and New NGC any employee whose employment transfers within 45 days after the Distribution from the New NGC Group to the HII Group or from the HII Group to the New NGC Group because they were inadvertently and erroneously treated as employed by the wrong employer on the Distribution Date, and who was continuously employed by a member of the HII Group or the New NGC Group (as applicable) from the Distribution through the date such employee commences active employment with a member of the New NGC Group or HII Group (as applicable) shall be a “Delayed Transfer Employee.” Except as otherwise specifically provided in this Employee Matters Agreement, such Delayed Transfer Employees shall be treated in the same manner as HII Employees as specified in this Employee Matters Agreement, to the extent practicable in compliance with applicable Law and the Employee Plans. For purposes of this Employee Matters Agreement, the date on which a Delayed Transfer Employee actually commences employment with the HII Group or the New NGC Group (as applicable) is referred to as such individual’s “Applicable Transfer Date” and such Applicable Transfer Date shall, except as expressly provided herein and in compliance with Law applicable to the Employee Plans, be treated as the Distribution Date for Delayed Transfer Employees where the Distribution Date is referenced in this Employee Matters Agreement. Notwithstanding anything herein to the contrary, the mutual agreement with respect to, and Applicable Transfer Date of, any Delayed Transfer Employee must occur on or before 45 days after Distribution.

Section 2.7 Annual Bonuses. HII shall be solely responsible for all annual bonuses earned by HII Employees and HII Retirees with respect to periods ending on or after January 1, 2011.

ARTICLE III
SERVICE CREDIT

Section 3.1 Service Credit for Employee Transfers. The Benefit Plans shall provide the following service crediting rules effective as of the Distribution:

(a) If a Delayed Transfer Employee becomes employed by a member of the New NGC Group or HII Group on or before 45 days after the Distribution then such Delayed Transfer Employee’s service with the HII Group or the New NGC Group (as applicable) following the Distribution shall be recognized for purposes of eligibility, vesting and pension credit under the appropriate Benefit Plans, subject to the terms of those plans.

(b) If a former employee of HII Group or New NGC Group (such Group, the “Original Group”) (whether or not a Delayed Transfer Employee) becomes
employed by a member of the other Group (such Group, the “Transferee Group”) either (i) later than 45 days after the Distribution or (ii) without having been continuously employed by a member of the Original Group from the Distribution through the date such former employee commences active employment with a member of the Transferee Group, then the Benefits Plans of the Transferee Group will not recognize for any purpose such individual’s service with the Original Group before or after the Distribution, except to the extent required by Law. If a former employee is rehired by his or her Original Group then all such individual’s service shall be recognized by the Benefit Plans of the Original Group to the extent required by Law.

Section 3.2 HII Benefit Plans. From and after the Distribution, or Applicable Transfer Date, HII shall, and shall cause its affiliates and successors to, provide credit under the HII Benefit Plans to HII Employees and HII Retirees for their service with HII and its predecessors and affiliates (including but not limited to NGC and any of its Affiliates, HII Group, New NGC and the New NGC Group) for all purposes to the same extent that such service was recognized under the relevant New NGC Benefit Plans. For avoidance of doubt, service shall be credited for all purposes, including but not limited to, benefit accrual, determining eligibility to participate, vesting, eligibility to retire, and eligibility for subsidized post-retirement welfare benefits and the amount of such subsidy; provided, however, that service shall not be recognized to the extent that such recognition would result in the duplication of benefits.

ARTICLE IV
CERTAIN WELFARE BENEFIT PLAN MATTERS

Section 4.1 HII Retained Welfare Plans. HII shall cause a member of the HII Group to retain, or to the extent necessary, assume sponsorship of any HII retained welfare plans (the “HII Retained Welfare Plans”) and take all necessary actions to continue contributions to the HII Retained Benefit Plans that are multiemployer Welfare Plans. To the extent necessary, prior to the Distribution, HII shall cause a member of the HII Group to assume sponsorship of the HII Retained Welfare Plans. New NGC shall use reasonable efforts to transfer or cause to be transferred to a member of the HII Group all plan documents, trust agreements, insurance policies, administrative agreements and other agreements and instruments reasonably required for the maintenance and administration of the HII Retained Welfare Plans. From and after the Distribution, the HII Group shall be exclusively responsible for all obligations and liabilities with respect to the HII Retained Welfare Plans, and all benefits owed to participants in the HII Retained Welfare Plans, whether accrued before, on or after the Distribution.

Section 4.2 HII Spinoff Welfare Plans. Effective not later than the Distribution, HII or a member of the HII Group shall establish certain welfare benefit plans (such plans, the “HII Spinoff Welfare Plans”). Each HII Spinoff Welfare Plan shall have terms and features (including benefit coverage options and employer contribution provisions) that are substantially identical to one of the Benefit Plans listed on Schedule 4.2 (such Benefit Plans, the “Split Welfare Plans”) such that (for avoidance of doubt), each Split Welfare Plan is substantially replicated by an HII Spinoff Welfare Plan. Each HII Spinoff Welfare Plan shall assume all liability from the corresponding Split Welfare Plan with respect to,
Section 4.3 Continuation of Elections. As of the Distribution, HII shall cause the HII Spinoff Welfare Plans to recognize and maintain all elections and designations (including, without limitation, all coverage and contribution elections and beneficiary designations) in effect with respect to HII Employees, HII Retirees and Delayed Transfer Employees prior to the Distribution under the corresponding Split Welfare Plan and apply such elections and designations under the HII Spinoff Welfare Plans for the remainder of the period or periods for which such elections or designations are by their original terms effective.

Section 4.4 Deductibles and Other Cost-Sharing Provisions. As of the Distribution (or Applicable Transfer Date with respect to a Delayed Transfer Employee), HII shall cause the HII Spinoff Welfare Plans to recognize all amounts applied to deductibles, co-payments and out-of-pocket maximums with respect to HII Employees, HII Retirees and Delayed Transfer Employees under the corresponding Split Welfare Plan during the plan year in which the Distribution or Applicable Transfer Date occurs, and the HII Spinoff Welfare Plans will not impose any limitations on coverage for preexisting conditions other than such limitations as were applicable under the comparable Benefit Plans prior to the Distribution or Applicable Transfer Date.

Section 4.5 Flexible Spending Account Treatment. With respect to the portion of a Split Welfare Plan that consists of medical and dependent care flexible spending accounts, as of the Distribution, HII shall be solely responsible for all liabilities with respect thereto, and the applicable HII Spinoff Welfare Plan shall, as required under Section 4.3, give effect to the elections of HII Employees and HII Retirees that were in effect under the Split Welfare Plan as of the Distribution.

Section 4.6 Health Reimbursement Arrangement Treatment. With respect to the portion of a Split Welfare Plan that is a health reimbursement arrangement (as defined in IRS Notice 2002-45) (“HRA”), as of the Distribution, HII shall cause the applicable HII Spinoff Welfare Plan to credit each HII Employee and HII Retiree who had an HRA balance under the Split Welfare Plan immediately prior to the Distribution with an HRA balance equal to the HRA balance he or she had under the Split Welfare Plan immediately prior to the Distribution. With respect to a Delayed Transfer Employee who had an HRA balance under the Split Welfare Plan immediately prior to his or her Applicable Transfer Date, HII shall cause the applicable HII Spinoff Welfare Plan to credit the Delayed Transfer Employee with an HRA balance equal to the HRA balance he or she had under the Split Welfare Plan immediately prior to his or her Applicable Transfer Date.
Section 4.7 Workers’ Compensation. The HII Group shall be responsible for processing all workers’ compensation claims of HII Employees and HII Retirees, regardless of when the Workers’ Compensation Event occurred. Coverage for such claims shall be as specified in the Insurance Matters Agreement.

ARTICLE V
TAX-QUALIFIED DEFINED BENEFIT PLANS

Section 5.1 HII Retained Defined Benefit Plans. Prior to the Distribution, HII shall cause a member of the HII Group to retain or, to the extent necessary, assume sponsorship of the HII Retained Defined Benefit Plans (and their related trusts) set forth on Schedule 5.1 (the “HII Retained DB Plans”) and take all necessary actions to continue contributions to the HII Retained DB Plans that are multiemployer defined benefit pension plans. New NGC shall use reasonable efforts to transfer or cause to be transferred to a member of the HII Group all plan documents, trust agreements, insurance policies, administrative agreements and other agreements and instruments reasonably required for the maintenance and administration of the HII Retained DB Plans. From and after the Distribution, the HII Group shall be exclusively responsible for all obligations and liabilities with respect to the HII Retained DB Plans, all assets of the HII Retained DB Plans, and all benefits owed to participants in the HII Retained DB Plans, whether accrued before, on or after the Distribution.

Section 5.2 HII Spinoff DB Plans

(a) Effective as of the Distribution, HII or another member of the HII Group shall establish certain defined benefit plans that qualify under Code Section 401(a), along with a related master trust or trusts that is exempt under Code Section 501(a) (such plans and trusts, the “HII Spinoff DB Plans”). Each HII Spinoff DB Plan shall have terms and features (including benefit accrual provisions) that are substantially identical to one of the Benefit Plans listed on Schedule 5.2(a) (such Benefit Plans, the “Split DB Plans”), such that (for avoidance of doubt), each Split DB Plan is substantially replicated by a corresponding HII Spinoff DB Plan. Each HII Spinoff DB Plan shall assume liability for all benefits accrued or earned (whether or not vested) by HII Employees and HII Retirees and their respective Plan Payees under the corresponding Split DB Plan as of the Distribution. HII or a member of the HII Group shall be solely responsible for taking all necessary, reasonable, and appropriate actions (including the submission of the HII Spinoff DB Plans to the Internal Revenue Service for a determination of tax-qualified status) to establish, maintain and administer the HII Spinoff DB Plans so that they are qualified under Section 401(a) of the Code and that the related trusts thereunder are exempt under Section 501(a) of the Code. The portion of liabilities relating to HII Employees, HII Retirees and Delayed Transfer Employees and their respective Plan Payees shall cease to be liabilities of the applicable Split DB Plan, and shall be assumed by the corresponding HII Spinoff DB Plan in accordance with this Section and Section 414(l) of the Code, Treasury Regulation Section 1.414(l)-1, and Section 208 of ERISA.

(b) A master trust (the “HII Master Trust”) has been established to hold the assets of the HII Spinoff DB Plans and the HII Retained Plans, and NGC has caused
certain marketable securities to be transferred to the HII Master Trust. The HII Spinoff Plans currently participating in the HII Master Trust as of the date of this Employee Matters Agreement are specified on Schedule 5.2(b)(i). New NGC or a member of the New NGC Group shall cause its actuary to determine the estimated value, as of December 31, 2010, of the assets required to be held on behalf of each HII Spin-off DB Plan in accordance with the assumptions and valuation methodology set forth on Schedule 5.2(b)(ii) (the “Estimated Retirement Plan Transfer Amount” for each such plan). Prior to or as of the Distribution, New NGC or a member of the New NGC Group shall cause the trust for each Split DB Plan to transfer to the HII Master Trust on behalf of each corresponding HII Spinoff DB Plan an amount in cash or in-kind equal to the Estimated Retirement Plan Transfer Amount for such plan, as adjusted for earnings based on (i) actual earnings of the applicable Split DB Plan from January 1, 2011 through February 28, 2011, and (ii) the daily interest rate on 90-day Treasury securities as of February 28, 2011 for the period from March 1, 2011 through the actual date of transfer, less amounts already held by the HII Master Trust as of the Distribution on behalf of the applicable HII Spinoff DB Plan. With respect to amounts included in the Estimated Retirement Plan Transfer Amount for private equity, real estate, infrastructure and hedge fund partnerships, New NGC shall cause the trust(s) in which the Split DB Plans participate to transfer to the HII Master Trust the cash value of such assets, as determined as of the end of the month prior to the month in which the Distribution occurs, adjusted to reflect interest in accordance with the methodology set forth on Schedule 5.2(b)(iii) from such month-end through the day before the day such cash transfer is made (which shall be no later than forty-five (45) days after the Distribution Date).

(c) Within twelve (12) months following the Distribution, New NGC or a member of the New NGC Group shall cause its actuary to provide HII with a revised calculation of the value, as of the Distribution, of the assets to be transferred to each HII Spinoff DB Plan determined in accordance with the assumptions and valuation methodology determined by New NGC using the assumptions specified on Schedule 5.2(b)(ii) and reflecting any Delayed Transfer Employees and their respective Applicable Transfer Dates and any demographic updates (the “Final Retirement Plan Transfer Amount” for each such plan).

(d) Within 45 days of the receipt from the actuary of the determination of the Final Retirement Plan Transfer Amount, New NGC shall cause each Split DB Plan to transfer to the corresponding HII Spinoff DB Plan (the date of each such transfer, the “Final Transfer Date” for each such plan) an amount in cash or in kind equal to (i) the Final Retirement Plan Transfer Amount, minus (ii) the sum of (A) the Estimated Retirement Plan Transfer Amount and (B) the aggregate amount of payments made from the Split DB Plan to HII Employees, HII Retirees and Delayed Transfer Employees and their respective Plan Payees in order to satisfy any benefit obligation with respect to such participants following the Distribution, or Applicable Transfer Date for Delayed Transfer Employees, plus (iii) any payments made from an HII Spinoff DB Plan to a Delayed Transfer Employee prior to when such Delayed Transfer Employee transferred from the HII Group to the New NGC Group (such amount the “True-Up Amount”). However, if the True-Up Amount is a negative number with respect to any HII Spinoff DB Plan, New NGC shall not be required to cause any such additional transfer and instead HII shall be required to
cause a transfer of cash within 45 days of the receipt of written notification by New NGC from such HII Spinoff DB Plan to the corresponding Split DB Plan the amount by which the sum of clauses (ii)(A) and (B) above, minus the amount in (iii) above, exceeds the Final Retirement Plan Transfer Amount. The True-Up Amount or the amount described in the immediately-preceding sentence shall be adjusted to reflect earnings or losses as described on Schedule 5.2(d). The parties hereto acknowledge that the Split DB Plans’ transfer of the True-Up Amounts to the corresponding HII Spinoff DB Plans shall be in full settlement and satisfaction of the obligations of New NGC and the Split DB Plans to transfer assets to the HII Spinoff DB Plans pursuant to this Section.

The True-Up Amount shall be paid from each Split DB Plan to the corresponding HII Spinoff DB Plan in cash according to the principles described in Section 5.2(b), and adjusted to reflect earnings or losses and expenses during the period from the Distribution (or Applicable Transfer Date with respect to Delayed Transfer Employees) to the day before the Final Transfer Date. Such earnings or losses shall be determined in accordance with the methodology set forth on Schedule 5.2(d) from the Distribution Date through the date the True-Up Amount is paid. In the event that HII is obligated to cause any HII Spinoff DB Plan to reimburse the corresponding Split DB Plan pursuant to this Section (or with respect to any earnings calculation attributable to individuals rehired by New NGC in accordance with this Section), such reimbursement or earnings calculation shall be performed in accordance with the same principles set forth herein (including, without limitation, earnings or losses in accordance with the methodology set forth on Schedule 5.2(d)) with respect to the payment of the True-Up Amount.

(e) To the extent that a Split DB Plan includes a retiree medical account under Section 401(h) of the Code, assets relating to such account shall be transferred to the applicable HII Spinoff DB Plan, with the amount of such transfer equal to a pro rata share of the total prefunded plan assets for the related retiree medical plan. The pro rata share is equal to the total amount of prefunded assets from the related retiree medical plan’s respective VEBA account and the 401(k) account, multiplied by a fraction. The numerator of the fraction is the actuarial accrued liability for the transferred employees and the denominator of which is the total actuarial accrued liability for the total plan participants; the actuarial accrued liability is determined based on the ongoing funding assumptions for purposes of the CAS funding for the retiree medical plan. Such transfer shall be made at the same time as the transfer of the Estimated Retirement Plan Transfer Amount, and the transfer amount shall be subject to subsequent adjustment under the principles specified in Sections 5.2(c) and 5.2(d).

(f) From and after the Distribution, HII and the members of the HII Group shall be solely and exclusively responsible for all obligations and liabilities with respect to, or in any way related to, the HII Spinoff DB Plans, whether accrued before, on or after the Distribution. For avoidance of doubt, the HII Spinoff DB Plans shall have the sole and exclusive obligation to restore the unvested accrued benefits attributable to any individual who becomes employed by a member of the HII Group and whose employment with NGC or any of its Affiliates or a member of the New NGC Group terminated on or before the Distribution at a time when such individual’s benefits under the Split DB Plan were not fully vested. Furthermore, the HII Spinoff DB Plans shall have the sole
obligation to restore accounts attributable to any lost participants who were formerly employed in the Shipbuilding Business.

Section 5.3 Continuation of Elections. As of the Distribution Date, HII (acting directly or through a member of the HII Group) shall cause the HII Spinoff DB Plans to recognize and maintain all existing elections, including, but not limited to, beneficiary designations, payment form elections and rights of alternate payees under qualified domestic relations orders with respect to HII Employees, HII Retirees and Delayed Transfer Employees and their respective Plan Payees under the corresponding Split DB Plan.

ARTICLE VI
U.S. TAX-QUALIFIED DEFINED CONTRIBUTION PLANS

Section 6.1 HII Retained Defined Contribution Plans. Prior to the Distribution, HII shall cause a member of the HII Group to retain or, to the extent necessary, assume sponsorship of the HII Retained Defined Contribution Plans (and their related trusts) set forth on Schedule 6.1 (the “HII Retained DC Plans”) and take all necessary actions to continue contributions to the HII Retained DC Plans that are multiemployer defined contribution pension plans. New NGC shall use reasonable efforts to transfer or cause to be transferred to a member of the HII Group all plan documents, trust agreements, insurance policies, administrative agreements and other agreements and instruments reasonably required for the maintenance and administration of the HII Retained DC Plans. From and after the Distribution, the HII Group shall be exclusively responsible for all obligations and liabilities with respect to the HII Retained DC Plans, all assets of the HII Retained DC Plans, and all benefits owed to participants in the HII Retained DC Plans, whether accrued before, on or after the Distribution.

Section 6.2 HII Spinoff DC Plans.

(a) Effective as of the Distribution, HII or another member of the HII Group shall establish certain defined contribution plans that qualify under Code Section 401(a), and a related master trust or trusts exempt under Code Section 501(a) (such plans and trusts, the “HII Spinoff DC Plans”). Each HII Spinoff DC Plan shall have terms and features (including employer contribution provisions) that are substantially identical to one of the Benefit Plans listed on Schedule 6.2 (such Benefit Plans, the “Split DC Plans”) such that (for avoidance of doubt), each Split DC Plan is substantially replicated by a corresponding HII Spinoff DC Plan. HII or a member of the HII Group shall be solely responsible for taking all necessary, reasonable, and appropriate actions (including the submission of the HII Spinoff DC Plans to the Internal Revenue Service for a determination of tax-qualified status) to establish, maintain and administer the HII Spinoff DC Plans so that they are qualified under Section 401(a) of the Code and that the related trusts thereunder are exempt under Section 501(a) of the Code. Each HII Spinoff DC Plan shall assume liability for all benefits accrued or earned (whether or not vested) by HII Employees and HII Retirees and their respective Plan Payees under the corresponding Split DC Plan as of the Distribution.
(b) On or as soon as reasonably practicable following the Distribution, New NGC or a member of the New NGC Group shall cause each Split DC Plan to transfer to the applicable HII Spinoff DC Plan, and HII or another member of the HII Group shall cause such HII Spinoff DC Plan to accept the transfer of, the accounts, liabilities and related assets in such Split DC Plan attributable to HII Employees and HII Retirees and their respective Plan Payees. The transfer of assets shall be in cash or in kind (as determined by the transferor) and include outstanding loan balances and amounts forfeited by HII Retirees that have not yet been reallocated or applied to the payment of contributions or expenses and be conducted in accordance with Code Section 414(l) and Treasury Regulation Section 1.414(l)-1, and Section 208 of ERISA.

(c) As soon as reasonably practicable (but not later than 30 days) following the Applicable Transfer Date of a Delayed Transfer Employee who transfers employment from a member of the New NGC Group to a member of the HII Group within 45 days following the Distribution, New NGC or a member of the New NGC Group shall cause the accounts, related liabilities, and related assets in the corresponding Split DC Plan(s) attributable to such Delayed Transfer Employee and their respective Plan Payees (including any outstanding loan balances) to be transferred in cash or in kind (as determined by the transferor) (in accordance with Code Section 414(l) and Treasury Regulation Section 1.414(l)-1, and Section 208 of ERISA) to the applicable HII Spinoff DC Plan(s) and HII or a member of the HII Group shall cause the applicable HII Spinoff DC Plan(s) to accept such transfer of accounts, liabilities and assets.

(d) In the event a Delayed Transfer Employee is an HII Employee who returns to employment with New NGC or a member of the New NGC Group, then, as soon as reasonably practicable (but not later than 30 days thereafter), HII or a member of the HII Group shall cause the accounts, related liabilities, and related assets in the corresponding HII Spinoff DC Plan(s) attributable to such Delayed Transfer Employee and their respective Plan Payees (including any outstanding loan balances) to be transferred in cash or in kind (as determined by the transferor) in accordance with Code Section 414(l) and Treasury Regulation Section 1.414(l)-1, and Section 208 of ERISA to the applicable Split DC Plan(s). New NGC or a member of the New NGC Group shall cause the applicable Split DC Plan(s) to accept such transfer of accounts, liabilities and assets.

(e) From and after the Distribution, except as specifically provided in paragraph (d) above, HII and the HII Group shall be solely and exclusively responsible for all obligations and liabilities with respect to, or in any way related to, the HII Spinoff DC Plans, whether accrued before, on or after the Distribution. For avoidance of doubt, the HII Spinoff DC Plans shall have the sole and exclusive obligation to restore the unvested portion of any account attributable to any individual who becomes employed by a member of the HII Group and whose employment with NGC or any of its Affiliates, or a member of the New NGC Group terminated on or before the Distribution at a time when such individual’s benefits under the Split DC Plans were not fully vested. Furthermore, the HII Spinoff DC Plans shall have the sole obligation to restore accounts attributable to any lost participants who were formerly employed in the Shipbuilding Business.
Section 6.3 Continuation of Elections. As of the Distribution, HII (acting directly or through a member of the HII Group) shall cause the HII Spinoff DC Plans to recognize and maintain all elections, including, but not limited to, deferral, investment and payment form elections, beneficiary designations, and the rights of alternate payees under qualified domestic relations orders with respect to HII Employees, HII Retirees and Delayed Transfer Employees and their respective Plan Payees under the corresponding Split DC Plan; provided, that, investment elections relating to the Northrop Grumman stock fund shall be deemed to apply to the specified default investment fund.

Section 6.4 Contributions Due. All contributions payable to the Split DC Plans with respect to employee deferrals, matching contributions and employer contributions for HII Employees through the Distribution Date, determined in accordance with the terms and provisions of the Split DC Plans, ERISA and the Code, shall be paid by New NGC or a member of the New NGC Group to the appropriate Split DC Plan prior to the date of any asset transfer described in Section 6.2.

ARTICLE VII
NONQUALIFIED RETIREMENT PLANS

Section 7.1 HII Retained Nonqualified Plans.

(a) Prior to the Distribution, HII shall cause a member of the HII Group to retain or, to the extent necessary, assume sponsorship of the HII Retained Nonqualified Plans set forth on Schedule 7.1(a) (the “HII Retained Nonqualified Plans”). New NGC shall use reasonable efforts to transfer or cause to be transferred to a member of the HII Group all plan documents, administrative agreements and other agreements and instruments reasonably required for the maintenance and administration of the HII Retained Nonqualified Plans. From and after the Distribution, the HII Group shall be exclusively responsible for all obligations and liabilities with respect to the HII Retained Nonqualified Plans, and all benefits owed to participants in the HII Retained Nonqualified Plans, whether accrued before, on or after the Distribution.

(b) Unless New NGC and HII agree otherwise before the Distribution, prior to or on the Distribution Date, New NGC shall cause to be transferred, to one or more grantor trusts established or maintained by HII as designated by HII, cash and/or in kind securities equal to the amount of the assets held under any grantor trust maintained by a member of the New NGC Group (each a “New NGC Grantor Trust”) that are allocated in the records of such New NGC Grantor Trust to pay benefits under the HII Retained Nonqualified Plans specified on Schedule 7.1(b). The amount of assets to be so transferred shall be determined by the actuary selected by the New NGC Group. If the New NGC Grantor Trust has any residual balances at the end of the month in which the Distribution Date occurs, such balances will be settled by transfer of cash.

Section 7.2 HII Spinoff Nonqualified Plans.

(a) Effective as of the Distribution, HII or another member of the HII Group shall establish certain nonqualified retirement plans (such plans, the “HII Spinoff Nonqualified Plans”)...
Each HII Spinoff Nonqualified Plan shall have terms and features (including employer contribution provisions) that are substantially identical to one of the NGC Benefit Plans listed on Schedule 7.2(a) (such plans, the “Split Nonqualified Plans”) such that (for avoidance of doubt), each Split Nonqualified Plan is substantially replicated by a corresponding HII Spinoff Nonqualified Plan. Except as specifically provided in Section 7.6, HII or a member of the HII Group shall be solely responsible for taking all necessary, reasonable, and appropriate actions to establish, maintain and administer the HII Spinoff Nonqualified Plans so that they do not result in adverse tax consequences under Code Section 409A. Each HII Spinoff Nonqualified Plan shall assume liability for all benefits accrued or earned (whether or not vested) by HII Employees and HII Retirees and their respective Plan Payees under the corresponding Split Nonqualified Plan as of the Distribution. From and after the Distribution, HII and the HII Group shall be solely and exclusively responsible for all obligations and liabilities with respect to, or in any way related to, the HII Spinoff Nonqualified Plans, whether accrued before, on or after the Distribution. Furthermore, HII and the HII Group shall have the sole obligation to restore in the HII Spinoff Nonqualified Plans benefits under the Split Nonqualified Plans attributable to any lost participants who were formerly employed in the Shipbuilding Business.

(b) Unless New NGC and HII agree otherwise before the Distribution, prior to or on the Distribution Date, New NGC or a member of the New NGC Group shall cause its actuary to determine the estimated value, as of the Distribution, of the amount of assets to be transferred from the New NGC Grantor Trusts to one or more grantor trusts established or maintained by HII as designated by HII with respect to the HII Spinoff Nonqualified Plans specified on Schedule 7.2(b) (the “Initial Nonqualified Plan Transfer Amount”). The Initial Nonqualified Plan Transfer Amount shall equal the amount determined as specified on Schedule 7.2(b).

(c) Within twelve (12) months following the Distribution, New NGC or a member of the New NGC Group shall cause its actuary to determine the revised value, as of the Distribution, of the assets to be transferred with respect to each HII Spinoff Nonqualified Plan specified on Schedule 7.2(b), as determined by the actuary selected by the New NGC Group, and reflecting any Delayed Transfer Employees and their respective Applicable Transfer Dates and any demographic updates (the “Final Nonqualified Plan Transfer Amount” for each such plan).

(d) Within forty-five (45) days of the receipt from the actuary of the determination of the Final Nonqualified Plan Transfer Amount, New NGC shall cause the applicable New NGC Grantor Trust to transfer to a grantor trust specified by HII (the date of each such transfer, the “Final Nonqualified Plan Transfer Date” for each such plan) an amount in cash equal to (i) the Final Nonqualified Plan Transfer Amount, minus (ii) the sum of (A) the Initial Nonqualified Plan Transfer Amount and (B) the aggregate amount of payments made pursuant to the Split Nonqualified Plan to HII Employees, HII Retirees and Delayed Transfer Employees and their respective Plan Payees in order to satisfy any benefit obligation with respect to such participants following the Distribution, or Applicable Transfer Date for Delayed Transfer Employees, plus (iii) any payments made from an HII Spinoff Nonqualified Plan specified on Schedule 7.2(b) to a Delayed Transfer.
Employee prior to when such Delayed Transfer Employee transferred from the HII Group to the New NGC Group (such amount the “Nonqualified Plan True-Up Amount”). However, if the Nonqualified Plan True-Up Amount is a negative number with respect to any HII Spinoff Nonqualified Plan, New NGC shall not be required to cause any such additional transfer and instead HII shall be required to cause a transfer of cash within forty-five (45) days of the receipt of written notification by New NGC from the relevant HII grantor trust to the New NGC Grantor Trust specified by New NGC the amount by which the sum of clauses (ii)(A) and (B) above, minus the amount in (iii) above, exceeds the Final Nonqualified Plan Transfer Amount. The Nonqualified Plan True-Up Amount or the amount described in the immediately-preceding sentence shall be adjusted to reflect earnings or losses as described on Schedule 7.2(d). The parties hereto acknowledge that the New NGC Grantor Trusts’ transfer of the Nonqualified Plan True-Up Amounts to an HII grantor trust shall be in full settlement and satisfaction of the obligations of New NGC and the New NGC Grantor Trusts to transfer assets to HII or any HII grantor trust pursuant to this Section 7.2(d).

Section 7.3 No Distributions On Separation. New NGC and HII acknowledge that neither the Distribution nor any of the other transactions contemplated by this Employee Matters Agreement, the Separation Agreement or the other Ancillary Agreements will trigger a payment or distribution of compensation under any Benefit Plan that is a nonqualified retirement plan for any HII Employee or HII Retiree and, consequently, that the payment or distribution of any compensation to which any HII Employee or HII Retiree is entitled under any HII Retained Nonqualified Plan or HII Spinoff Nonqualified Plan will occur upon such HII Employee’s or HII Retiree’s separation from service from the HII Group or at such other time as provided in such HII Retained Nonqualified Plan or HII Spinoff Nonqualified Plan or such HII Employee’s or HII Retiree’s deferral election.

Section 7.4 Section 409A. New NGC and HII shall cooperate in good faith so that the Distribution will not result in adverse tax consequences under Code Section 409A to any current or former employee of any member of the New NGC Group or any member of the HII Group, or their respective Plan Payees, in respect of his or her benefits under any New NGC Benefit Plan or HII Benefit Plan.

Section 7.5 Continuation of Elections. As of the Distribution, HII (acting directly or through a member of the HII Group) shall cause each HII Spinoff Nonqualified Plan to recognize and maintain all elections, including, but not limited to, deferral, investment and payment form elections, beneficiary designations, and the rights of alternate payees under qualified domestic relations orders with respect to HII Employees, HII Retirees and their Plan Payees under the corresponding Split Nonqualified Plan; provided, that investment elections relating to a Northrop Grumman stock fund under a Split Nonqualified Plan shall be deemed to apply to the specified default investment fund.

Section 7.6 Delayed Transfer Employees. Any Delayed Transfer Employee who transfers to the HII Group within 45 days following the Distribution shall be treated in the same manner as an HII Employee under this Article VII. As indicated in Section 2.6, such a Delayed Transfer Employee’s Applicable Transfer Date shall be treated as the
Distribution Date. In addition, if a Delayed Transfer Employee transfers from the HII Group to the New NGC Group within 45 days following the Distribution, the New NGC Group shall assume and be solely responsible, pursuant to the terms of the applicable Split Nonqualified Plan, for any benefits accrued by such individual under any HII Spinoff Nonqualified Plan, and the HII Group shall have no liability with respect thereto.

ARTICLE VIII
NEW NGC EQUITY COMPENSATION AWARDS

Section 8.1 General Treatment of Outstanding New NGC Equity Compensation Awards. Notwithstanding any other provision of this Employee Matters Agreement or the Separation Agreement to the contrary, from and after the Distribution, each outstanding option award to purchase New NGC Common Stock (“New NGC Option”) and each restricted performance stock right award with respect to New NGC Common Stock that relates to a performance period ending after January 1, 2011 (“New NGC RPSR”), restricted stock right award with respect to New NGC Common Stock (“New NGC RSR”) and cash performance unit award subject to the terms of a New NGC long-term incentive cash plan (“New NGC CPU”), in each case that was granted under or pursuant to any equity compensation plan or arrangement of New NGC (each such New NGC Option, New NGC RPSR, New NGC RSR or New NGC CPU, a “New NGC Equity Compensation Award”), that, as of the Distribution, is held by any HII Employee (which for purposes of this Section 8.1, shall not include any Delayed Transfer Employees) or HII Retiree, shall be assumed by HII (each such assumed New NGC Equity Compensation Award, a “Converted HII Equity Compensation Award”). Except for cash performance unit awards, in connection with the assumption by HII, each Converted HII Equity Compensation Award shall be adjusted into an option award, restricted performance stock right award or restricted stock right award, as applicable, with respect to shares of HII common stock, par value $0.01 per share (“HII Common Stock”), having the same intrinsic value as the applicable New NGC Equity Compensation Award using an exchange ratio (the “Exchange Ratio”) equal to the closing price of a share of New NGC Common Stock on the last regular trading day immediately prior to the Distribution Date based on “regular way” trading divided by the closing price of a share of HII Common Stock on the first day on or after the Distribution Date on which HII Common Stock trades on a “regular way” basis, with such adjustments subject to appropriate rounding and to be effective upon the Distribution. The per share exercise price of any Converted HII Equity Compensation Award that is a stock option shall also be adjusted effective upon the Distribution by dividing the applicable per share exercise price of the stock option as in effect immediately prior to the Distribution by the Exchange Ratio, with the result rounded up to the nearest whole cent. The performance criteria applicable to any Converted HII Equity Compensation Awards that are restricted performance stock rights and cash performance unit awards shall also be adjusted so that the applicable performance criteria are measured based on New NGC performance criteria through December 31, 2010, and HII performance criteria following such date through the end of the applicable performance period. Prior to the Distribution, HII shall establish equity compensation plans, so that upon the Distribution, HII shall have in effect an equity compensation plan containing substantially the same terms as each original New NGC equity compensation plan under which any Converted HII Equity Compensation Award was granted. From and after the
Distribution, each Converted HII Equity Compensation Award shall be subject to the terms of the applicable HII equity compensation plan, the award agreement governing such Converted HII Equity Compensation Award and any Employment Agreement to which the applicable HII Employee or HII Retiree is a party. From and after the Distribution, HII shall retain, pay, perform, fulfill and discharge all Liabilities arising out of or relating to the Converted HII Equity Compensation Awards. Effective as of the Distribution, each HII Employee and HII Retiree shall cease participation in all New NGC equity compensation plans. In all events, the adjustments to the Converted HII Equity Compensation Awards provided for in this Section 8.1 shall be made in a manner that, as determined by New NGC, avoids adverse tax consequences under Code Section 409A.

Section 8.2 Tax Withholding and Reporting. Effective from and after the Distribution, HII shall be solely responsible for all Tax withholding obligations with respect to the Converted HII Equity Compensation Awards.

ARTICLE IX
BENEFIT PLAN REIMBURSEMENTS, BENEFIT PLAN THIRD-PARTY CLAIMS

Section 9.1 General Principles.

(a) With respect to costs relating to Welfare Plan benefits (including, for the avoidance of doubt, claim costs, insurance premiums and administrative fees) provided to HII Employees and HII Retirees prior to Distribution that were not previously charged to a member of the HII Group, the HII Group shall reimburse New NGC within 30 days following receipt of an invoice from New NGC accompanied by reasonable documentation of such cost; provided that: (i) New NGC shall reduce such cost to reflect the receipt by New NGC after Distribution of amounts under the Medicare Part D Retiree Drug Subsidy Program or Early Retiree Reimbursement Program in respect of pre-Distribution claim costs of HII Retirees, with the amount of such reduction determined by New NGC using the allocation method historically applied by New NGC with respect to such amounts prior the Distribution; (ii) New NGC shall further reduce such cost to reflect any subrogation or reimbursement or similar recovery received by New NGC or a New NGC Benefit Plan after Distribution with respect to pre-Distribution claims incurred by HII Employees and HII Retirees; (iii) no such Welfare Plan costs shall be charged to, or adjustment amounts described in (ii) and (iii) credited to, the HII Group after March 31, 2013; and (iv) if, as of March 31, 2013, the adjustment amounts determined under (i) and (ii) exceed the costs chargeable to the HII Group as of that date, the New NGC Group shall reimburse the HII Group the amount of such excess.

(b) From and after the Distribution, any services that a member of the New NGC Group shall provide to the members of the HII Group relating to any Benefit Plans shall be set forth in the Transition Services Agreement (and, to the extent provided therein, a member of the New NGC Group shall provide administrative services referred to in this Employee Matters Agreement).
(c) From and after the Distribution, the members of the New NGC Group shall reimburse the members of the HII Group for any rebates or reimbursements received by a member of the New NGC Group from any third party (whether from a vendor, a taxing authority or any other third party) that relates to amounts paid by a member of the HII Group prior to the Distribution in connection with participation by HII Employees and HII Retirees in any New NGC Benefit Plan.

Section 9.2 Benefit Plan Third-Party Claims. In the event of any conflict or inconsistency between the following provision on the one hand, and the Separation Agreement or any of the Ancillary Agreements on the other hand, the following provision shall control over the inconsistent provisions to the extent of the inconsistency:

If a Third-Party Claim relates solely to the Benefit Plan of the Indemnifying Party, HII and New NGC shall take all actions necessary to substitute the Indemnifying Party and/or the relevant Benefit Plan of the Indemnifying Party as the proper party for such Third-Party Claim. If the Third-Party Claim relates to both an HII Benefit Plan and a New NGC Benefit Plan, HII and New NGC shall take all actions necessary to separate or otherwise partition the Third-Party Claim so as to allow each party to solely defend the claim relating to its own Benefit Plan (unless the parties mutually agree that such a separation or partition is unnecessary or inadvisable). If the Third-Party Claim cannot be transferred to the Indemnifying Party or separated or partitioned so as to allow each party to solely defend the claim relating to its own Benefit Plan, then New NGC shall defend the Third-Party Claim and HII may elect to participate in (but not control) the defense, compromise, or settlement of any such Third-Party Claim at its own expense (including allocated costs of HII in-house counsel and other HII personnel).

ARTICLE X
COOPERATION

Section 10.1 Cooperation. Following the date of this Employee Matters Agreement, New NGC and HII shall, and shall cause their respective Subsidiaries to, use reasonable best efforts to cooperate with respect to any employee compensation or benefits matters that New NGC or HII, as applicable, reasonably determines require the cooperation of both New NGC and HII in order to accomplish the objectives of this Employee Matters Agreement. Without limiting the generality of the preceding sentence, (a) New NGC and HII shall cooperate in coordinating each of their respective payroll systems in connection with the transfers of HII Employees to the HII Group and the Distribution, and (b) New NGC shall transfer records to HII as reasonably necessary for the proper administration of HII Benefit Plans, to the extent such records are in New NGC’s possession. The obligations of the HII Group and the New NGC Group to cooperate pursuant to this Section 10.1 shall remain in effect until all audits of all Benefit Plans with respect to which the other party may have information have been completed or the applicable statute of limitations with respect to such audits has expired.
ARTICLE XI
MISCELLANEOUS

Section 11.1 Vendor Contracts. Prior to the Distribution, New NGC and HII shall use reasonable best efforts to (a) negotiate with the current third-party providers to separate and assign the applicable rights and obligations under each group insurance policy, health maintenance organization, administrative services contract, third-party administrator agreement, letter of understanding or arrangement that pertains to one or more New NGC Benefit Plans and one or more HII Benefit Plans (each, a “Vendor Contract”) to the extent that such rights or obligations pertain to HII Employees and HII Retirees and their respective Plan Payees or, in the alternative, to negotiate with the current third-party providers to provide substantially similar services to the HII Benefit Plans on substantially similar terms under separate contracts with HII or the HII Benefit Plans and (b) to the extent permitted by the applicable third-party provider, obtain and maintain pricing discounts or other preferential terms under the Vendor Contracts.

Section 11.2 Further Assurances. Prior to the Distribution, if either party identifies any commercial or other service that is needed to ensure a smooth and orderly transition of its business in connection with the consummation of the transactions contemplated hereby, and that is not otherwise governed by the provisions of this Employee Matters Agreement, the parties will cooperate in determining whether there is a mutually acceptable arm’s-length basis on which the other party will provide such service.


Section 11.4 Data Privacy. The parties agree that any applicable data privacy Laws and any other obligations of the HII Group and the New NGC Group to maintain the confidentiality of any employee information or information held by any Benefit Plans in accordance with applicable Law shall govern the disclosure of employee information among the parties under this Employee Matters Agreement. HII and New NGC shall ensure that they each have in place appropriate technical and organizational security measures to protect the personal data of the HII Employees and HII Retirees.

Section 11.5 Employee Badges. HII shall use reasonable best efforts to cause HII Employees to remove references to NGC from such individuals’ security badges, effective as of the Distribution Date.

Section 11.6 Third Party Beneficiaries. Nothing contained in this Employee Matters Agreement shall be construed to create any third-party beneficiary rights in any individual, including without limitation any HII Employee, New NGC Employee, New NGC Retiree or HII Retiree (including any dependent or beneficiary thereof) nor shall this Employee Matters Agreement be deemed to amend any Benefit Plan or to prohibit New NGC, HII or their respective Affiliates from amending or terminating any Benefit Plan.
Section 11.7 Effect if Distribution Does Not Occur. If the Distribution does not occur, then all actions and events that are, under this Employee Matters Agreement, to be taken or occur effective as of the Distribution, or otherwise in connection with the Distribution shall not be taken or occur except to the extent specifically agreed by the parties.

Section 11.8 Incorporation of Separation Agreement Provisions. The following provisions of the Separation Agreement are hereby incorporated herein by reference, and unless otherwise expressly specified herein, such provisions shall apply as if fully set forth herein (references in this Section 11.8 to an “Article” or “Section” shall mean Articles or Sections of the Separation Agreement, and references in the material incorporated herein by reference shall be references to the Separation Agreement): Article V (relating to Mutual Releases; Indemnification); Article VI (relating to Shared Gains and Shared Liabilities); Article VII (relating to Exchange of Information; Confidentiality); Article VIII (relating to Further Assurances and Additional Covenants); Article IX (relating to Termination); Article X (relating to Dispute Resolution); and Article XI (relating to Miscellaneous).

Section 11.9 No Representation or Warranty. New NGC makes no representation or warranty with respect to any matter in this Employee Matters Agreement, including, without limitation, any representation or warranty with respect to the legal or tax status or compliance of any Benefit Plan, compensation arrangement or Employment Agreement, and New NGC disclaims any and all liability with respect thereto.

[The remainder of this page is intentionally left blank.]
IN WITNESS WHEREOF, the parties have caused this Employee Matters Agreement to be executed by their duly authorized representatives.

NORTHROP GRUMMAN CORPORATION

By: /s/ Mark Rabinowitz
Name: Mark Rabinowitz
Title: Corporate Vice President & Treasurer

NEW P, INC.

By: /s/ Mark Rabinowitz
Name: Mark Rabinowitz
Title: President & Treasurer

HUNTINGTON INGALLS INDUSTRIES, INC.

By: /s/ C. Michael Petters
Name: C. Michael Petters
Title: President and Chief Executive Officer

[Signature Page to Employee Matters Agreement]
INSURANCE MATTERS AGREEMENT

among

NORTHROP GRUMMAN CORPORATION,
NEW P, INC.,
and

HUNTINGTON INGALLS INDUSTRIES, INC.

Dated as of March 29, 2011
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RECITALS

A. The parties to this Insurance Matters Agreement, together with certain Subsidiaries of NGC, have entered into the Separation and Distribution Agreement (the “Separation Agreement”), dated as of the date hereof.

B. Pursuant to the Separation Agreement, the business of NGC will be separated into two publicly traded companies: (a) HII, which following the Separation (as defined in the Separation Agreement) will own and conduct, directly and indirectly, the Shipbuilding Business (as defined in the Separation Agreement), and (b) New NGC, which following the Separation will own and conduct, directly and indirectly, the Retained Business (as defined in the Separation Agreement).

C. NGC, its Subsidiaries, and their respective predecessors have historically maintained various Insurance Policies (as defined below) providing coverage for the Shipbuilding Business and the Retained Business.

D. The parties desire to enter into this Insurance Matters Agreement to allocate, among themselves, rights in the Insurance Policies and related coverages.

AGREEMENT

In consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to become legally bound hereby, the parties agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Table of Definitions. The following terms have the meanings set forth on the pages referenced below:

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<td>Shipbuilding Insurance Policies</td>
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Section 1.2 Certain Defined Terms. For the purposes of this Insurance Matters Agreement:


“Insurance Policies” means insurance contracts of any kind, including, without limitation, first-party property, primary liability, excess liability, self-insurance, captive insurance company arrangements, reinsurance, surety bonds, and certificates of insurance naming or benefitting NGC or one of its pre-Distribution Subsidiaries, together with the rights, benefits, and privileges that arise thereunder or by virtue of law, except that “Insurance Policies” excludes life and employee benefits insurance. “Insurance Policies” includes insurance contracts issued to Subsidiaries of NGC before NGC acquired such Subsidiaries.

“Outside-Entity Insurance Policies” means any Insurance Policies that (a) are acquired by any entity that is not a member of either Group and (b) name or benefit any New NGC Entity or any HII Entity.


Section 1.3 Other Capitalized Terms. Capitalized terms not defined in this Insurance Matters Agreement shall have the meanings ascribed to them in the Separation Agreement.

ARTICLE II
SHIPBUILDING INSURANCE POLICIES

Section 2.1 Assignment of Shipbuilding Insurance Policies. Effective as of the date of the Internal Reorganization, to the extent not already assigned, transferred, conveyed and delivered prior to such date and subject to Section 2.2 of the Separation Agreement, NGC hereby assigns, transfers, conveys and delivers to HII and HII hereby accepts and assumes NGC’s rights and obligations in the Shipbuilding Insurance Policies to the extent that the Shipbuilding Insurance Policies cover Shipbuilding Liabilities. NGC shall use reasonable best efforts to obtain written confirmation from its insurance broker that the Shipbuilding Insurance Policies may be assigned to HII or an HII Entity and shall use reasonable best efforts to obtain any necessary consents identified by its insurance broker to assign the Shipbuilding Insurance Policies. Nothing in this Section shall be construed to mean that NGC or New NGC believes that the consent by an insurer to the
assignment of any particular Insurance Policy or right or obligation in or under any particular Insurance Policy is required by Law to make such assignment effective.

Section 2.2 Assumption of Risk. In the event that NGC does not have the right to completely assign the Shipbuilding Insurance Policies to HII, HII shall bear the risk that such coverage is not available and will be obligated at its own expense to obtain replacement coverage, but New NGC shall use reasonable best efforts to assist HII to the extent reasonably necessary to provide HII access to the benefits of the Shipbuilding Insurance Policies. HII shall nonetheless be responsible for handling its own claims and coverage disputes. New NGC shall promptly notify HII if New NGC receives notice from any insurance carrier that NGC does not have the right to assign the Shipbuilding Insurance Policies to HII.

Section 2.3 Assumption of Amounts Payable. HII shall pay or cause to be paid any self-insured retentions, deductibles, premiums, retrospective premium adjustments, or other amounts payable after the Distribution relating to the Shipbuilding Insurance Policies.

Section 2.4 Further Assurances. Under the Separation Agreement, HII has assumed or will assume the Shipbuilding Liabilities and is solely responsible for such. HII nevertheless agrees to use its reasonable best efforts to provide the New NGC Group the benefit of the Shipbuilding Insurance Policies to the extent any Person seeks to collect any Shipbuilding Liability against any New NGC Entity. HII shall not cancel, terminate, or amend the Shipbuilding Insurance Policies in a manner that adversely affects coverage for the New NGC Group. HII shall pay all amounts necessary to exhaust or otherwise satisfy all applicable self-insured retentions, deductibles, and retrospective premium adjustments for the Shipbuilding Insurance Policies and related to any Shipbuilding Liability, as well as similar amounts not covered by the Shipbuilding Insurance Policies and related to any of the Shipbuilding Liabilities. New NGC shall not be responsible for letters of credit or surety bonds required to maintain the Shipbuilding Insurance Policies.

Section 2.5 Pending Claims. Unless otherwise provided in the Separation Agreement, New NGC shall pay to HII all net recoveries received on claims filed by NGC on behalf of the Shipbuilding Business under the Shipbuilding Insurance Policies when such claims were filed prior to the Distribution Date. New NGC shall make payments (net of expenses) to HII within 30 days of receiving the insurance proceeds related to the claims.

ARTICLE III
RETAINED INSURANCE POLICIES

Section 3.1 Assignment of Retained Insurance Policies. Effective as of the date of the Internal Reorganization, to the extent not already assigned, transferred, conveyed and delivered prior to such date and subject to Section 2.2 of the Separation Agreement, NGC hereby assigns, transfers, conveys and delivers to New NGC and New NGC hereby accepts and assumes NGC’s rights and obligations in the Retained Insurance Policies. NGC shall use reasonable best efforts to obtain written confirmation from its
insurance broker that the Retained Insurance Policies may be assigned to New NGC and its Subsidiaries and Affiliates and shall use reasonable best efforts to obtain any necessary consents identified by its insurance broker to assign the Retained Insurance Policies. Nothing in this Section shall be construed to mean that NGC or New NGC believes that the consent by an insurer to the assignment of any particular Insurance Policy or right or obligation in or under any particular Insurance Policy is required by Law to make such assignment effective.

Section 3.2 Pre-Distribution Occurrences. New NGC shall use reasonable best efforts to provide HII the benefit of the Retained Insurance Policies for occurrences, losses, circumstances and other acts or events occurring prior to the Distribution. HII shall make claims under the Retained Insurance Policies directly to the insurer and shall provide New NGC contemporaneous written notice of any such claim. HII may negotiate settlement of such claims under the Retained Insurance Policies independently of the New NGC Group, but shall keep New NGC reasonably advised concerning the status of any such negotiation. HII shall obtain the prior written consent of New NGC, which shall not be unreasonably withheld or delayed, before initiating coverage litigation against any insurer or initiating any legal action against a broker of the Retained Insurance Policies. In no event will HII initiate coverage litigation directly against any New NGC Entity.

Section 3.3 HII’s Financial Obligations for the Retained Insurance Policies. After the Distribution Date, HII shall, independently and without the involvement of the New NGC Group, pay all amounts necessary to exhaust or otherwise satisfy all applicable self-insured retentions, deductibles, fronted policy program repayments, and any other amounts not covered by the Retained Insurance Policies and related to any claim made on the Retained Insurance Policies by HII. HII also shall pay its proportionate share of any retrospective premium adjustments for the Retained Insurance Policies, according to the protocols which have historically been followed prior to the Distribution. HII shall not be responsible for letters of credit or surety bonds required to maintain the Retained Insurance Policies.

Section 3.4 Assumption of Risk. In the event that New NGC does not have the right under the Retained Insurance Policies to provide HII the benefit of such Insurance Policies, HII shall bear the risk that such coverage is not available, but New NGC shall at its own cost and expense use reasonable best efforts to assist HII to the extent reasonably necessary to provide HII access to the benefits of the Retained Insurance Policies. HII shall nonetheless be responsible for its own claims handling. New NGC shall promptly notify HII if New NGC receives notice from any insurance carrier that NGC does not have the right to provide HII with the benefits of the Retained Insurance Policies.

Section 3.5 Directors’ and Officers’ Insurance. For the six-year period commencing immediately after the Distribution, New NGC shall maintain in effect directors’ and officers’ liability Insurance Policies providing coverage for acts or omissions occurring prior to the Distribution with respect to those Persons who are currently covered by NGC’s directors’ and officers’ liability Insurance Policies, including such Persons who become officers, directors or employees of HII, on terms and at limits no less favorable.
than New NGC’s directors’ and officers’ liability Insurance Policies in any given policy year.

Section 3.6 Northrop Grumman Risk Management Inc. Insurance Policies. Notwithstanding Section 3.2 of this Insurance Matters Agreement, HII shall retain coverage under certain self-insurance policies issued by Northrop Grumman Risk Management Inc. until March 15, 2011, but only to the extent that Northrop Grumman Risk Management Inc. has reinsurance contracts covering losses incurred by HII during that period. HII shall, independently and without the involvement of the New NGC Group, pay all amounts necessary to exhaust or otherwise satisfy all applicable self-insured retentions, deductibles, fronted policy program repayments, and any other amounts not covered by reinsurance and related to any claim made on Northrop Grumman Risk Management Inc. Insurance Policies.

Section 3.7 Replacement Insurance Policies. Except as expressly set forth above, the policy period of all Current Retained Insurance Policies shall be deemed to end as to HII as of the Distribution. HII has arranged and shall be obligated to maintain its own separate replacement Insurance Policies for the period that commences as of the Distribution, and such insurance arrangements shall be separate and apart from the insurance programs of New NGC and its Subsidiaries.

Section 3.8 Insurance Company Bankruptcy or Insolvency. With regards to the Retained Insurance Policies only, the parties shall use their best efforts to cooperate with one another to maximize the total recovery in the event of any future settlement or other disposition of the liabilities of any insurance company, which shall become insolvent or otherwise seek to avail itself of any scheme of arrangement or bankruptcy proceeding. In addition, the parties shall use their best efforts to allocate to HII any portion of any such recovery which pertains to the Shipbuilding Liabilities.

ARTICLE IV
COOPERATION

Section 4.1 Cooperation in Claims Handling. Each of New NGC and HII, at the request of the other and at its own cost and expense, shall cooperate with and use reasonable best efforts to assist the other in processing or presenting claims made under any Insurance Policy for the benefit of any insured party.

Section 4.2 Information. Each of New NGC and HII and their respective Groups shall share such information as is reasonably necessary in order to permit the other to manage and conduct its insurance matters in an orderly fashion. On or before the Distribution, New NGC will provide to HII the best available listing of historic Insurance Policies that provide coverage to HII for occurrences, claims, losses, circumstances and other acts or events on or after April 3, 2001 and electronic copies of all such Insurance Policies in its possession. HII shall be solely responsible for maintaining this information and New NGC shall not be obligated to provide duplicative or additional information following the Distribution.
Section 4.3 Retention of Insurance Policies. Each of New NGC Entities and HII Entities will use reasonable best efforts to prevent the destruction of any Insurance Policy, to notify the other Group of the proposed destruction of any Insurance Policy, and to give such other Group reasonable opportunity to take possession of such Insurance Policy prior to such destruction.

Section 4.4 Certain Actions. Except to the extent provided in this Insurance Matters Agreement, no New NGC Entity or HII Entity shall take any action that would compromise, jeopardize, or otherwise interfere with either Group’s rights under any Insurance Policy. Except as otherwise contemplated by the Separation Agreement, this Insurance Matters Agreement, or any other Ancillary Agreement, after the Distribution, no New NGC Entity or HII Entity shall, without the prior written consent of the other Group, which such consent shall not be unreasonably withheld or delayed, provide any insurance carrier with a release, or amend, modify, settle, compromise, or waive any rights under any Insurance Policy, if such release, amendment, modification or waiver would adversely affect any rights or potential rights of any member of the other Group thereunder. However, nothing in this Section 4.4 shall (a) preclude any member of any Group from presenting any claim or from exhausting any policy limit, (b) require any member of any Group to pay any premium or other amount or to incur any Liability or (c) require any member of any Group to renew, extend or continue any Insurance Policy.

Section 4.5 Allocation of Amounts. For purposes of the exhaustion of any limits that apply to coverage available under the Insurance Policies, amounts shall be allocated to the Insurance Policies on a first come/first served basis. That means that amounts covered by such Insurance Policies shall be allocated to such Insurance Policies in the order in which such amounts were paid by the insurance companies.

Section 4.6 No Agreement to Provide Insurance Management or Risk Management Services. Nothing in this Insurance Matters Agreement shall be construed as providing for or creating an obligation to provide insurance management or risk management services.

Section 4.7 Outside-Entity Insurance Policies. Outside-Entity Insurance Policies are unaffected by this transaction. It will be the responsibility of each Group to monitor and renew any Outside-Entity Insurance Policies benefiting that Group without the involvement of the other Group. However, the parties shall, each at its own cost and expense, use their reasonable best efforts to cooperate and assist one another to assure that appropriate name change amendments are made to any Outside-Entity Insurance Policies necessary to assure that said Outside-Entity Insurance Policies insure the entity that has the Liabilities to which the insurance relates.

ARTICLE V
GENERAL PROVISIONS

Section 5.1 Effect if Distribution Does Not Occur. If the Distribution does not occur, then all actions and events that are, under this Insurance Matters Agreement, to be taken or occur effective as of the Distribution, or otherwise in connection with the
Distribution shall not be taken or occur, except to the extent specifically agreed by the parties.

Section 5.2 Incorporation of Separation Agreement Provisions. The following provisions of the Separation Agreement are hereby incorporated herein by reference, and unless otherwise expressly specified herein, such provisions shall apply as if fully set forth herein (references in this Section 5.2 to an “Article” or “Section” shall mean Articles or Sections of the Separation Agreement, and references in the material incorporated herein by reference shall be references to the Separation Agreement): Article V (relating to Mutual Releases; Indemnification); Article VI (relating to Shared Gains and Shared Liabilities); Article VII (relating to Exchange of Information; Confidentiality); Article VIII (relating to Further Assurances and Additional Covenants); Article IX (relating to Termination); Article X (relating to Dispute Resolution); and Article XI (relating to Miscellaneous). In the event of any conflict or inconsistency between any of the foregoing provisions of the Separation Agreement and any provision of this Insurance Matters Agreement, this Insurance Matters Agreement shall prevail with respect to matters governed by this Insurance Matters Agreement.

[The remainder of this page is intentionally left blank.]
IN WITNESS WHEREOF, the parties have caused this Insurance Matters Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

NORTHROP GRUMMAN CORPORATION

By: /s/ Mark Rabinowitz
   Name: Mark Rabinowitz
   Title: Corporate Vice President & Treasurer

NEW P, INC.

By: /s/ Mark Rabinowitz
   Name: Mark Rabinowitz
   Title: President & Treasurer

HUNTINGTON INGALLS INDUSTRIES, INC.

By: /s/ C. Michael Petters
   Name: C. Michael Petters
   Title: President and Chief Executive Officer

[Signature Page to Insurance Matters Agreement]
INTELLECTUAL PROPERTY LICENSE AGREEMENT
between
NORTHROP GRUMMAN SYSTEMS CORPORATION
and
NORTHROP GRUMMAN SHIPBUILDING, INC.
Dated as of March 29, 2011
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INTELLECTUAL PROPERTY LICENSE AGREEMENT

INTELLECTUAL PROPERTY LICENSE AGREEMENT, dated as of March 29, 2011 (this “License Agreement”), between Northrop Grumman Systems Corporation, a Delaware corporation (“NGSC”) and Northrop Grumman Shipbuilding, Inc., a Virginia corporation (“NGSB”).

RECITALS

A. NGSC, NGSB, Northrop Grumman Corporation, a Delaware corporation (“NGC”), New P, Inc., a Delaware corporation (“New NGC”), and Huntington Ingalls Industries, Inc., a Delaware corporation (“HII”), have entered into the Separation and Distribution Agreement (the “Separation Agreement”), dated as of the date hereof, pursuant to which New NGC intends to distribute to its stockholders its entire interest in HII by way of a stock dividend (the “Distribution”).

B. Following the Distribution, NGSC will be a wholly owned subsidiary of New NGC (which will be renamed “Northrop Grumman Corporation”) and NGSB will be a wholly owned subsidiary of HII.

C. The parties wish to set forth their agreements as to certain matters regarding Intellectual Property (as defined below) under which each party shall grant to the other a non-exclusive license of the Intellectual Property owned by such party or any of its Affiliates that is used by the other party in the conduct of their respective businesses and within the Field of Use (as defined below).

AGREEMENT

In consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Table of Definitions. The following terms have the meanings set forth on the pages referenced below:

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Section 1.2 Certain Defined Terms. For the purposes of this License Agreement:

“Affiliate” of any Person means a Person that controls, is controlled by, or is under common control with such Person; provided, however, that for purposes of this License Agreement, none of the New NGC Entities (as defined in the Separation Agreement) shall be deemed to be an Affiliate of any HII Entity (as defined in the Separation Agreement) and none of the HII Entities shall be deemed to be an Affiliate of any New NGC Entity. As used herein, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such entity, whether through ownership of voting securities or other interests, by contract or otherwise.

“Business Day” means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

“Designated Intellectual Property” means the Intellectual Property identified on Schedule C.

“Field of Use” means, (a) as to any Licensed Intellectual Property other than the Designated Intellectual Property, the use of such Intellectual Property that the Licensee
has made in the ordinary course of its business in the Relevant Usage Period prior to and including the Distribution, including the general manner and scope of such use in the Line of Business for which the Intellectual Property has been used during such Relevant Usage Period and (b) as to any Designated Intellectual Property, the applicable field of use specified on Schedule C. In the event of a dispute between the parties as to whether a particular use by a Licensee of Licensed Intellectual Property licensed to such Licensee is within the applicable Field of Use, the Licensee will have the burden of proof by a preponderance of the evidence. For the avoidance of doubt, the general manner and scope of such use shall include broad uses of the Intellectual Property, such as use in customer proposals.

“Governmental Authority” means any United States or non-United States federal, state, local, territorial, tribal or international court, government, department, commission, board, bureau, agency, official or other legislative, judicial, regulatory, administrative or governmental authority.

“Intellectual Property” or “IP” means all of the following intellectual property rights, whether arising under the laws of the United States or the laws of any other jurisdiction: (a) patents, (b) copyrights, (c) trade secrets, know-how and other confidential and proprietary information, and (d) all registrations and applications for registration of any of the foregoing, but excluding (e) trademarks, service marks, domain names and similar rights.

“Licensed Intellectual Property” means (a) all Intellectual Property owned by a party or any of its Affiliates as of the Distribution that, in the Relevant Usage Period prior to or at the time of the Distribution, has been or is being used by the other party or any of its Affiliates in the ordinary course of such other party’s or any of its Affiliate’s businesses, excluding any such Intellectual Property that prior to the Distribution, has been or is being used by the other party or any of the other party’s Affiliates solely in connection with such other party or such other party’s Affiliate performing as a party to an intercompany teaming agreement, intercompany work order or similar intercompany agreement with such party or any of its Affiliates and (b) the Designated Intellectual Property.

“Licensee” means, collectively, a party and its Affiliates in their capacity as licensees to which a license of Licensed Intellectual Property is granted by Licensor hereunder.

“Licensor” means, collectively, a party and its Affiliates in their capacity as licensors of Licensed Intellectual Property that is licensed to Licensee hereunder.

“Line of Business” means a set of one or more highly related products which service a particular business need.

“Person” means an individual, corporation, partnership, limited liability company, limited liability partnership, syndicate, person, trust, association, organization or
other entity, including any Governmental Authority, and including any successor, by merger or otherwise, of any of the foregoing.

“Relevant Usage Period” means the 12-month period prior to the Distribution.

“Software” means computer software and databases, together with, as applicable, object code, source code, firmware and embedded versions thereof and documentation related thereto.

“Subsidiary” of any Person means any corporation or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries; provided, however, that no Person that is not directly or indirectly wholly owned by any other Person shall be a Subsidiary of such other Person unless such other Person controls, or has the right, power or ability to control, that Person.

ARTICLE II
GRANT OF LICENSES

Section 2.1 Grant of Licenses.

(a) Subject to the terms and conditions of this License Agreement, each Licensor hereby grants to the respective Licensee a non-exclusive, worldwide, fully paid, non-transferable (except as expressly provided in Article VII), irrevocable and perpetual license, solely within such Licensee’s Field of Use, to:

(i) make (including the right to use any apparatus and practice any method in making), have made, make improvements on, use, import, offer for sale, lease, sell and/or otherwise transfer products and provide services under the patents included in such Licensor’s Licensed Intellectual Property (including any patents that hereafter issue on patent applications that are pending as of the Distribution);

(ii) use, reproduce, distribute, prepare derivative works of, and publicly perform and publicly display any original works of authorship (or any derivative works based thereon) that are the subject of any of the copyrights included in such Licensor’s Licensed Intellectual Property; and

(iii) use and exploit any know-how or other trade secrets or proprietary information included in such Licensor’s Licensed Intellectual Property, subject to compliance with the confidentiality obligations set forth in Article IV.

(b) Each party shall cause its Affiliates to grant the licenses contemplated to be granted by such Affiliates hereunder and to perform all of their
obligations imposed hereunder, including the confidentiality obligations set forth in Article IV.

(c) Each Licensee will, and will cause its Affiliates to, comply with the Field of Use and all other limitations or restrictions imposed under this License Agreement with respect to its and its Affiliates’ use of the Licensed Intellectual Property licensed to it and its Affiliates hereunder.

Section 2.2 Have Made Rights. The licenses granted in Sections 2.1(a)(i) by the applicable Licensor to the applicable Licensee to have products made by a third party or to import products: (a) apply only when the specifications for such Licensee’s products were created by or specifically for Licensee (either solely or jointly with one or more third parties), (b) extend only to those claims of Licensor’s licensed patents, the infringement of which would be necessitated by compliance with such specifications and (c) do not apply to any methods used, or any products in substantially the same form manufactured or marketed, by such third party, prior to Licensee’s furnishing of such specifications.

Section 2.3 Right to Sublicense. Except as otherwise provided on Schedule C with respect to the Designated Intellectual Property, each Licensee shall have the right to sublicense freely the rights and licenses granted by the applicable Licensor pursuant to Section 2.1(a) to Licensee’s contractors, subcontractors and agents for use solely in connection with the operation of Licensee’s business and within the Field of Use. Each Licensee shall ensure that all such permitted sublicensees shall abide by the terms and conditions of this License Agreement, to the extent applicable, and all such grants of sublicenses shall be made in writing and executed by all parties thereto.

Section 2.4 Licensed Software. The parties agree and acknowledge that any Software that is licensed under this License Agreement shall be licensed only in the form in which it is being used by the Licensee in the ordinary course of its business in the Relevant Usage Period prior to and including the Distribution; provided that, in the case of any Software included in the Designated Intellectual Property, such Software will be licensed in the form specified on Schedule C. Accordingly, in the case of Software that is not included in the Designated Intellectual Property, if a Licensee is using any source code of any Software licensed to it hereunder by the Licensor in the ordinary course of its business in the Relevant Usage Period prior to and including the Distribution, such Licensee will be permitted to retain such source code and the licenses granted under Section 2.1(a) to such Licensee shall extend to such source code. Notwithstanding the foregoing, for the Software identified on Schedule B hereto that is undergoing improvement or as to which a derivative work is being prepared (“Improved Software”), the parties agree and acknowledge that any such Improved Software that is licensed under this License Agreement shall be licensed in such form existing immediately after successful completion of testing of the improvement and/or derivative works that is in process of being made or prepared as of the Distribution, even if such form comes into existence after the Distribution. The respective Licensor hereby agrees to deliver such Improved Software in the licensed form, as soon as practicable after successful completion of testing of the improvement and/or derivative work. Thereafter, the Licensor shall have no further obligation to deliver any improvements or derivative works of such Improved
Software to each Licensee under this License Agreement. Accordingly, for such Improved Software that has been used by the Licensee in source code form in the ordinary course of its business in the Relevant Usage Period prior to and including the Distribution, such Licensee will be permitted to obtain such source code in the form existing immediately after such successful completion of testing and the licenses granted under Section 2.1(a) to such Licensee shall extend to such source code. For the avoidance of doubt, this License Agreement provides for the licensing of Intellectual Property that is owned by a party or an Affiliate thereof and nothing in this License Agreement provides for any sublicensing of Software or any other Intellectual Property that is owned by a third party or any assignment of any license of Software or any other Intellectual Property that is owned by a third party.

Section 2.5 Delivery of Embodiments of IP. To the extent that a Licensee is not in possession as of the Distribution of any embodiment of Licensed Intellectual Property licensed to such Licensee hereunder, the respective Licensor hereby agrees to deliver to such Licensee upon request, as soon as practicable after the Distribution, copies of all such embodiments of such Licensed Intellectual Property. Thereafter, each Licensor shall have no further obligation to deliver any Licensed Intellectual Property, or copies thereof, to each Licensee under this License Agreement. Each Licensor shall have no further access to, or any obligation to maintain or service, any electronic copies of such Licensed Intellectual Property that is delivered to the Licensee.

Section 2.6 Jointly Developed Intellectual Property. If either party or any of its Affiliates materially contributed to the development of any Intellectual Property that is owned by the other party or any of the other party’s Affiliates as of the Distribution, and such Intellectual Property does not constitute Licensed Intellectual Property that is licensed to such party and such party’s Affiliates hereunder, the other party agrees that, if such party requests that it and its Affiliates be granted a license to use such Intellectual Property within the scope of their Lines of Business existing as of the Distribution, the other party will consider in good faith granting such requested license.

Section 2.7 Use of Intellectual Property in Connection with Certain Intercompany Arrangements. Any Intellectual Property that, at the time of the Distribution, (a) is owned by any member of the New NGC Group (as defined in the Separation Agreement), but is in the possession of, or is being used by, a member of the HII Group performing as a party to an intercompany teaming agreement, intercompany work order or similar intercompany agreement with a member of the New NGC Group, shall be licensed by such member of the New NGC Group to such member of the HII Group pursuant to the terms of any intellectual property license granted to such member of the HII Group in the applicable intercompany agreement or, if the applicable intercompany agreement does not set forth the terms of such intellectual property license, then pursuant to the terms of an intellectual property license that such member of the New NGC Group and such member of the HII Group shall negotiate in good faith promptly after the Distribution, or (b) is owned by any member of the HII Group, but is in the possession of, or is being used by, a member of the New NGC Group in connection with such member of the New NGC Group performing as a party to an intercompany teaming agreement,
intercompany work order or similar intercompany agreement with a member of the HII Group, shall be licensed by such member of the HII Group to such member of the New NGC Group pursuant to the terms of any intellectual property license granted to such member of the New NGC Group in the applicable intercompany agreement or, if the applicable intercompany agreement does not set forth the terms of such intellectual property license, then pursuant to the terms of an intellectual property license that such member of the HII Group and such member of the New NGC Group shall negotiate in good faith promptly after the Distribution.

Section 2.8 License to Use Background Intellectual Property.

(a) “Background Intellectual Property” means, with respect to an Intellectual Property asset owned by one party or any of its Affiliates (“Foreground Intellectual Property”), Intellectual Property that was owned by the other party or any of the other party’s Affiliates prior to the creation or development of such Foreground Intellectual Property, and that is essential to the effective use or practice of such Foreground Intellectual Property.

(b) “Background IP Owner” means the party or any of its Affiliates that owns the Background Intellectual Property.

(c) “Foreground IP Owner” means the party or its Affiliates that owns or has been licensed the Foreground Intellectual Property.

(d) The Background IP Owner hereby grants to the Foreground IP Owner a non-exclusive, worldwide, fully paid, irrevocable and perpetual license to use or practice and have had practiced such Background Intellectual Property of the Background IP Owner that is essential to the effective use or practice of the Foreground Intellectual Property.

(e) The licenses granted in Section 2.8(d) shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Notwithstanding any other provisions in this License Agreement, the Foreground IP Owner shall not assign (in whole or in part) or sublicense any licensed Background Intellectual Property to any known competitor of the Background IP Owner in the technical field of such Background Intellectual Property.

(f) As a further limitation on the provisions of Section 4.2(a), in the case of licensed Background Intellectual Property, in maintaining the confidentiality of Proprietary Information of the Disclosing Party related to such Background Intellectual Property, the Foreground IP Owner shall not disclose or give access to any such Proprietary Information to any known competitor of the Background IP Owner in the technical field of such Background Intellectual Property.
ARTICLE III
OWNERSHIP

Section 3.1 Ownership. Each Licensee acknowledges that, as between the parties, each Licensor owns all right, title and interest in and to its Licensed Intellectual Property. Each Licensee agrees that it shall not, directly or indirectly, challenge the validity, enforceability or ownership of the respective Licensor’s Licensed Intellectual Property.

Section 3.2 Ownership of Improvements and Derivative Works. Each party or its applicable Affiliate will own exclusively all improvements and derivative works created or developed by such party or its Affiliate that are derived from or based on any Licensed Intellectual Property licensed from the other party hereunder, subject to the other party’s retained ownership of the Licensed Intellectual Property on which such improvements and derivative works are based or from which they are derived. Other than for Improved Software as provided in Section 2.4, neither party (nor any Affiliate thereof) shall have any obligation to disclose or license any such improvements or derivative works to the other party.

Section 3.3 No Other License. Except as expressly provided in this License Agreement, nothing herein shall be construed as granting to a party any license or other rights under any other Intellectual Property rights of the other party whether by implication or estoppel. Nothing herein shall grant either party, in selling or promoting the sale of products or services, the right to directly or indirectly use or refer to the trademarks or trademark type rights of the other party or trademarks or other marks and names similar thereto.

Section 3.4 Prosecution and Maintenance. Each Licensor shall have the sole and exclusive right, but not the obligation, at its sole cost and expense: (a) to file, prosecute, obtain and maintain, throughout the world, any patents, patent applications and other registrations or applications for registration included in the Licensed Intellectual Property owned by such Licensor, and (b) to conduct or participate, throughout the world, in any interference, reexamination, opposition, cancellation, nullification and other interparties, ex partes or other types of proceedings before the U.S. Patent & Trademark Office and similar authorities, registries or agencies, and all appeals thereof (regardless of forum) involving or relating to such Licensed Intellectual Property. The manner in which any such filing, prosecution, maintenance or any other action is conducted by such Licensor under this Section 3.4 shall be in such Licensor’s sole control and discretion.

ARTICLE IV
CONFIDENTIALITY

Section 4.1 Proprietary Information. For the purposes hereof, “Proprietary Information” of a party (the “Disclosing Party”) means all business sensitive and/or proprietary information of the Disclosing Party disclosed to, or in the possession of, the other party (the “Receiving Party”), whether disclosed orally, verbally, visually, electronically, in tangible form or otherwise, and regardless of whether marked, denoted or
otherwise indicated as “business sensitive,” “proprietary,” “private” or words of similar import. Proprietary Information of Licensor shall include trade secrets and other business sensitive and proprietary information included in the Licensed Intellectual Property, as well as any business and/or sensitive information that has been made available by a Party or any of its Affiliates to the other party or any of the other party’s Affiliates in connection with such other party or such other party’s Affiliate performing as a party to an intercompany teaming agreement, intercompany work order or similar intercompany agreement.

Section 4.2 Confidentiality.

(a) In maintaining the confidentiality of Proprietary Information of the Disclosing Party, the Receiving Party shall exercise the same degree of care that it exercises with its own Proprietary Information, but in no event less than a reasonable degree of care. Without limiting any of the foregoing, the Receiving Party shall not disclose or give access to any such Proprietary Information to any third party, other than its personnel, sublicensees or customers pursuant to contract requirements, without the prior written consent of the Disclosing Party. The Receiving Party shall restrict access to such Proprietary Information to those of its personnel and sublicensees having a strict need for access thereto, and shall use commercially reasonable efforts to ensure that each of its personnel and sublicensees holds in confidence the Proprietary Information of the Disclosing Party in accordance with the terms and conditions hereof. The Receiving Party shall, and shall cause its personnel and sublicensees to, make no use, directly or indirectly, of any Proprietary Information of the Disclosing Party for any purpose other than as authorized hereunder. The Receiving Party shall not copy or reproduce the Proprietary Information or any portion thereof, or remove any tangible copies of the Proprietary Information or any portion thereof from the Receiving Party’s facilities except as reasonably required in connection with exercising the rights licensed hereunder or as expressly permitted by the Disclosing Party.

(b) As a further limitation on the provisions of Section 4.2(a), in the case of assets listed as Designated Intellectual Property, if Schedule C includes sublicensing limitations for an asset and such sublicensing limitations prohibit sublicensing of such asset to known competitors except under strict non-disclosure agreement, then in maintaining the confidentiality of Proprietary Information of the Disclosing Party related to such asset, the Receiving Party shall ensure that the strict non-disclosure agreement meets the non-disclosure requirements set forth at the end of Schedule C.

(c) The confidentiality obligations contained in Section 4.2(a) and (b) and Section 2.8(f) shall not apply to any information that contemporaneous written records of the Receiving Party demonstrate (a) was lawfully disclosed to the Receiving Party without restriction by an unrelated third party who does not have any obligations of confidentiality to the Disclosing Party, (b) the Receiving Party independently developed such information prior to the Distribution without any use of or reference to the Proprietary Information of the Disclosing Party or (c) is or becomes part of the public domain through no fault of the Receiving Party, it being understood that if only a portion of any such information is or becomes part of the public domain (including by way of issued patents or
Section 4.3 Limited Exception. The obligation of confidentiality and non-disclosure contained in this License Agreement shall not apply to the extent that the Receiving Party is required to disclose any Proprietary Information of the Disclosing Party by a valid subpoena, order or regulation of a governmental agency or a court of competent jurisdiction having jurisdiction over the Receiving Party; provided, however, that the Receiving Party shall not intentionally make any such disclosure without (a) first notifying the Disclosing Party and allowing the Disclosing Party a reasonable opportunity to prevent or limit such disclosure (either by challenging or quashing any such subpoena, order or regulation or obtaining injunctive relief from, or a protective order with respect to, the obligation to make such disclosure), and (b) reasonably cooperating, at Disclosing Party’s expense, with the Disclosing Party’s efforts to prevent or limit such disclosure.

Section 4.4 Unauthorized Disclosure. The Receiving Party acknowledges and confirms that the Proprietary Information of the Disclosing Party constitutes proprietary information and trade secrets valuable to the Disclosing Party, and that the unauthorized use, loss or outside disclosure of such Proprietary Information shall cause irreparable injury to the Disclosing Party. The Receiving Party shall notify the Disclosing Party immediately upon discovery of any unauthorized use or disclosure of such Proprietary Information, and will cooperate with the Disclosing Party in every reasonable way to help regain possession of such Proprietary Information and to prevent its further unauthorized use. The Receiving Party acknowledges and agrees that monetary damages may not be a sufficient remedy for unauthorized disclosure of Proprietary Information of the Disclosing Party and that the Disclosing Party shall be entitled, without waiving other rights or remedies, to such injunctive or equitable relief as may be deemed proper by a court of competent jurisdiction. The prevailing party shall be entitled to recover reasonable attorney’s fees incurred by it in connection with any action commenced by the Disclosing Party against the Receiving Party arising out of or relating to any alleged disclosure of Proprietary Information of the Disclosing Party by the Receiving Party in breach of this License Agreement.

ARTICLE V
REPRESENTATIONS; DISCLAIMER

Section 5.1 Mutual Representations. Each party represents and warrants that (a) it has the power and authority to enter into this License Agreement and has taken all necessary corporate action to authorize its performance under this License Agreement; (b) this License Agreement, when executed and delivered, will constitute a legal, valid and binding obligation of each such party, enforceable in accordance with its terms; (c) no consent or authorization of, filing with, or notice to any governmental authority is required in connection with its performance under this License Agreement; and (d) its entering into this License Agreement or performance by it hereunder will not violate any federal, state or local licensing or other statute, rule or regulation, or any contractual obligation of such party. Each party agrees to comply with all applicable Laws, rules and regulations in connection with its activities under this License Agreement.
Section 5.2 Disclaimer. Except as expressly set forth in this License Agreement, each of the licenses of Licensed Intellectual Property granted by a Licensor hereunder are made “as-is” and “where-is.” Each Licensor hereby disclaims all representations or warranties of any kind, either express or implied, including any warranty of merchantability, fitness for a particular purpose, non-infringement or any other matter with respect to any Licensed Intellectual Property licensed by such Licensor, whether used alone or combined with other products or services.

Section 5.3 Limitations on Liability. Except for any willful breach of Articles III and IV, under no circumstances shall either party be liable to the other party for indirect, incidental, consequential, punitive or exemplary damages (even if such other party has been advised of the possibility of such damages) arising from a claim for breach of any provision of this License Agreement. Notwithstanding the foregoing, the provisions of this Section 5.3 shall not limit an Indemnifying Party’s indemnification obligations with respect to any Liability that any Licensor Indemnatee may have to any third party that is not an Affiliate of any party.

Section 5.4 Indemnification. Following the Distribution, each Licensee (an “Indemnifying Party”) shall indemnify, defend and hold harmless the respective Licensor and such Licensor’s Affiliates and its and their respective current, former and future directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the “Licensor Indemnitees”), from and against any and all (a) Third Party Claims (as defined in the Separation Agreement) asserted or brought against any of the Licensor Indemnitees based on or relating to the exercise by the Indemnifying Party or any of its Affiliates of the license to use the Licensed Intellectual Property that is granted to such Licensee or any such Affiliates hereunder or otherwise relating to the Indemnifying Party’s or any of its Affiliates’ use of the Licensed Intellectual Property licensed hereunder and (b) all Liabilities relating to, arising out of or resulting from any such Third Party Claims. The notice and other indemnification procedures set forth in Sections 5.4, 5.5 (other than Section 5.5(b)), 5.6, 5.7 and 5.8 of the Separation Agreement that apply to indemnification claims arising under Article V of the Separation Agreement are hereby incorporated by reference and shall apply to any indemnification claims arising under this Section 5.4.

ARTICLE VI
TERM

Section 6.1 Term. The rights granted to each party under this License Agreement shall be irrevocable and perpetual and shall not be terminable by either party, and such rights shall continue in full force and effect notwithstanding any breach by the other party hereunder; provided that, if any Licensee breaches any limitations or restrictions imposed on it in Sections 2.1, 2.2, 2.3 or 2.8 with respect to its use of any Intellectual Property licensed to it hereunder, or materially breaches any confidentiality obligations set forth in Article IV with respect to its use of any Intellectual Property licensed to it hereunder, then, effective upon 30 days’ prior written notice by the Licensor to the Licensee, such Intellectual Property thereafter shall be excluded from the Intellectual Property licensed to the Licensee hereunder and, upon the expiration of such 30-day
period, Licensee shall cease any and all use of such Intellectual Property unless, prior to expiration of such 30-day period, Licensee has fully cured such breach.

**ARTICLE VII**

**TRANSFERABILITY**

Section 7.1 **Assignment.** This License Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither party may assign this License Agreement without the prior written consent of the other party. Notwithstanding the foregoing, either party may assign or otherwise transfer this License Agreement or its rights hereunder, in whole or in part, to any of its Affiliates or to a third party in connection with the sale of all or substantially all of the assets of such party or any of its Affiliates to which this License Agreement pertains or in connection with a merger, consolidation, corporate reorganization or any change of control of such party or any of its Affiliates or a sale or divestiture of any of the product lines, operating units or business divisions of such party or any of its Affiliates; provided that (a) the assigning party shall provide written notice to the other party of any such assignment, and (b) such assignee shall agree to assume all applicable obligations of the assigning party hereunder, and to be subject to the terms of this License Agreement. For the avoidance of doubt, any permitted assignee of any license granted under Article II of this License Agreement is subject to the Field of Use and all other limitations or restrictions imposed under this License Agreement with respect to such license, including in particular the Field of Use limitation that limits use of Licensed Intellectual Property to use by and in the Line of Business where and as the Licensed Intellectual Property was used during the Relevant Usage Period prior to the Distribution; provided further that, in the case of Designated Intellectual Property, the applicable Field of Use limitation and the applicable Sublicensing Limitations will continue to be as specified on Schedule C.

**ARTICLE VIII**

**GENERAL PROVISIONS**

Section 8.1 **Amendment and Modification.** This License Agreement may not be amended, modified or supplemented in any manner, whether by course of conduct or otherwise, except by an instrument in writing specifically designated as an amendment hereto, signed on behalf of each party.

Section 8.2 **Waiver.** No failure or delay of any party in exercising any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, or any course of conduct, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the parties hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have hereunder. Any agreement on the part of any party to any such waiver shall be valid only if set forth in a written instrument executed and delivered by a duly authorized officer on behalf of such party.
Section 8.3 Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or if by facsimile, upon written confirmation of receipt by facsimile, e-mail or otherwise, (b) on the first Business Day following the date of dispatch if delivered utilizing a next-day service by a recognized next-day courier or (c) on the earlier of confirmed receipt or the fifth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered to the addresses set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

(i) if to NGSC prior to the date on which New NGC relocates its corporate headquarters, to:
    c/o Northrop Grumman Corporation
    1840 Century Park East
    Los Angeles, CA 90067-2199
    Attention: General Counsel
    Facsimile: (310) 556-4910

(ii) if to NGSC after the date on which New NGC relocates its corporate headquarters, to:
    c/o Northrop Grumman Corporation
    2980 Fairview Park Drive
    Falls Church, VA 22042
    Attention: General Counsel
    Facsimile: (703) 875-1852

(iii) if to NGSB, to:
    c/o Huntington Ingalls Industries, Inc.
    4101 Washington Avenue
    Newport News, VA 23607
    Attention: General Counsel
    Facsimile: (757) 688-1408

Section 8.4 Interpretation. When a reference is made in this License Agreement to a Section, Article or Exhibit such reference shall be to a Section, Article or Exhibit of this License Agreement unless otherwise indicated. The table of contents and headings contained in this License Agreement or in any Exhibit are for convenience of reference purposes only and shall not affect in any way the meaning or interpretation of this License Agreement. All words used in this License Agreement will be construed to be of such gender or number as the circumstances require. Any capitalized terms used in any Exhibit but not otherwise defined therein shall have the meaning as defined in this License Agreement. The word “including” and words of similar import when used in this License Agreement shall mean “including, without limitation,” unless otherwise specified. Where either party’s consent is required
hereunder, except as otherwise specified herein, such party’s consent may be granted or withheld in such party’s sole and absolute discretion. The word “day” when used in this License Agreement shall mean “calendar day,” unless otherwise specified.

Section 8.5 Entire Agreement. This License Agreement, the Separation Agreement and the Exhibits, Schedules and Appendices hereto and thereto constitute the entire agreement, and supersedes all prior written agreements, arrangements, communications and understandings and all prior and contemporaneous oral agreements, arrangements, communications and understandings among the parties with respect to the subject matter hereof. This License Agreement shall not be deemed to contain or imply any restriction, covenant, representation, warranty, agreement or undertaking of any party with respect to the transactions contemplated hereby other than those expressly set forth herein or in any document required to be delivered hereunder. Notwithstanding any oral agreement or course of action of the parties or their representatives to the contrary, no party to this License Agreement shall be under any legal obligation to enter into or complete the transactions contemplated hereby unless and until this License Agreement shall have been executed and delivered by each of the parties.

Section 8.6 No Third-Party Beneficiaries. Nothing in this License Agreement, express or implied, is intended to or shall confer upon any Person other than the parties and their respective successors and permitted assigns any legal or equitable right, benefit or remedy of any nature under or by reason of this License Agreement.

Section 8.7 Governing Law. This License Agreement and all disputes or controversies arising out of or relating to this License Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal laws of the State of New York, without regard to the laws of any other jurisdiction that might be applied because of the conflicts of laws principles of the State of New York (other than Section 5-1401 of the New York General Obligations Law).

Section 8.8 Submission to Jurisdiction. Each of the parties irrevocably agrees that any legal action or proceeding arising out of or relating to this License Agreement brought by any other party or its successors or assigns shall be brought and determined in any federal court sitting in the Borough of Manhattan in the City of New York (or, if such court lacks subject matter jurisdiction, in any appropriate New York State or federal court), and each of the parties hereby irrevocably submits to the exclusive jurisdiction of the aforesaid courts for itself and with respect to its property, generally and unconditionally, with regard to any such action or proceeding arising out of or relating to this License Agreement and the transactions contemplated hereby. Each of the parties agrees not to commence any action, suit or proceeding relating thereto except in the courts described above in New York, other than actions in any court of competent jurisdiction to enforce any judgment, decree or award rendered by any such court in New York as described herein. Each of the parties further agrees that notice as provided in Section 8.3 shall constitute sufficient service of process and the parties further waive any argument that such service is insufficient. Each of the parties hereby irrevocably and unconditionally waives, and agrees not to assert, by way of motion or as a defense, counterclaim or otherwise, in any action or proceeding arising out of or relating to this License Agreement or the
transactions contemplated hereby, (a) any claim that it is not personally subject to the jurisdiction of the courts in New York as described herein, (b) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise) and (c) that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper or (iii) this License Agreement, or the subject matter hereof, may not be enforced in or by such courts.

Section 8.9 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this License Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly, each of the parties shall be entitled to specific performance of the terms hereof, including an injunction or injunctions to prevent breaches of this License Agreement and to enforce specifically the terms and provisions of this License Agreement in any federal court sitting in the Borough of Manhattan in the City of New York (or, if such court lacks subject matter jurisdiction, in any appropriate New York State or federal court), this being in addition to any other remedy to which such party is entitled at law or in equity. Each of the parties hereby further waives (a) any defense in any action for specific performance that a remedy at law would be adequate and (b) any requirement under any law to post security as a prerequisite to obtaining equitable relief.

Section 8.10 Severability. Whenever possible, each provision or portion of any provision of this License Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but if any provision or portion of any provision of this License Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable Law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or portion of any provision in such jurisdiction, and this License Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion of any provision had never been contained herein.

Section 8.11 Waiver of Jury Trial. EACH OF THE PARTIES TO THIS LICENSE AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS LICENSE AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 8.12 Counterparts. This License Agreement may be executed in one or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

Section 8.13 Facsimile Signature. This License Agreement may be executed by facsimile signature and a facsimile signature shall constitute an original for all purposes.
Section 8.14 Effect if Distribution Does Not Occur. If the Distribution does not occur, then this License Agreement shall automatically be terminated and all actions and events that are, under this License Agreement, to be taken or occur effective as of the Distribution, or otherwise in connection with the Distribution shall not be taken or occur except to the extent specifically agreed by the parties.

[The remainder of this page is intentionally left blank.]
IN WITNESS WHEREOF, the parties have caused this License Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

NORTHROP GRUMMAN SYSTEMS CORPORATION

By: /s/ Mark Rabinowitz  
Name: Mark Rabinowitz  
Title: President and Treasurer

NORTHROP GRUMMAN SHIPBUILDING, INC.

By: /s/ C. Michael Petters  
Name: C. Michael Petters  
Title: President and Chief Executive Officer

[Signature Page to Intellectual Property License Agreement]
TAX MATTERS AGREEMENT
by and among
NEW P, INC.
(to be renamed NORTHROP GRUMMAN CORPORATION),
HUNTINGTON INGALLS INDUSTRIES, INC.
and
NORTHROP GRUMMAN CORPORATION
(to be renamed TITAN II INC.)
Dated as of March 29, 2011
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- Exhibit A Form of Letter Waiving Conflict of Interest
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TAX MATTERS AGREEMENT

THIS TAX MATTERS AGREEMENT, dated as of March 29, 2011 (this “Agreement”), is made by and among NEW P, INC., a Delaware corporation (“New NGC”), HUNTINGTON INGALLS INDUSTRIES, INC., a Delaware corporation (“HII”), and NORTHROP GRUMMAN CORPORATION, a Delaware corporation (“NGC”). Each of New NGC, HII and NGC is sometimes referred to herein as a “Party”, and, collectively, New NGC, HII and NGC are referred to as the “Parties”.

RECITALS

A. NGC, acting through itself and its direct and indirect Subsidiaries, currently conducts the Shipbuilding Business and the Retained Business.

B. The board of directors of NGC has determined that it is appropriate, desirable and in the best interests of NGC and its stockholders to separate NGC into two publicly traded companies: (a) HII, which following the Distribution, will own and conduct, directly and indirectly, the Shipbuilding Business, and (b) New NGC, which, following the Distribution, will own and conduct, directly and indirectly, the Retained Business.

C. The Parties have entered into the Separation and Distribution Agreement, dated as of March 24, 2011 (the “Separation and Distribution Agreement”), pursuant to which they will undertake the Holding Company Reorganization, the Internal Reorganization, and the Distribution (each as defined in the Separation and Distribution Agreement) (collectively, the “Transactions”).

D. The Parties have entered into the Ancillary Agreements (as defined in the Separation and Distribution Agreement), pursuant to which they will undertake certain other transactions and arrangements relating to the separation of the Shipbuilding Business from the Retained Business.

E. Prior to the Distribution, NGC will be renamed “Titan II Inc.” and New NGC will be renamed “Northrop Grumman Corporation.”

F. NGC is the common parent of an affiliated group of corporations that files consolidated U.S. federal Income Tax Returns (the “Current Federal Tax Group”) and consolidated and combined Tax Returns in certain other jurisdictions (each a “Current Non-Federal Tax Group” and, collectively with the Current Federal Tax Group, the “Current Tax Group”), and NGC is the Current Tax Group Agent for the Current Tax Group Members.

G. Following the Distribution, HII will be the common parent of an affiliated group of corporations that files consolidated U.S. federal Income Tax Returns and consolidated or combined Tax Returns in certain other jurisdictions (the “HII Tax Group”), and HII will be the agent for the HII Tax Group Members.

H. Following the Distribution, the Current Federal Tax Group and certain Current Non-Federal Tax Groups will remain in existence with all their respective previous Members other than the HII Group Members.
I. Following the Distribution, (1) New NGC will be the common parent of the Current Tax Group and will be the Current Tax Group Agent with respect to U.S. federal Income Tax matters for Taxable Periods ending December 31, 2011 and thereafter; and (2) New NGC will be the common parent of certain Current Non-Federal Tax Groups and will be the Current Tax Group Agent with respect to certain Tax matters (other than U.S. federal Income Tax matters) for certain Post-Distribution Taxable Periods.

J. Following the Distribution, and until NGC’s corporate existence terminates (or until the relevant Tax Authority consents to or requires the appointment of a substitute Current Tax Group Agent), (1) NGC will continue to be the Current Tax Group Agent with respect to U.S. federal Income Tax matters for Taxable Periods ending on or prior to December 31, 2010; and (2) NGC will continue to be the Current Tax Group Agent with respect to certain Tax matters (other than U.S. federal Income Tax matters) for certain Pre-Distribution Taxable Periods.

K. The Parties intend that, for U.S. federal Income Tax purposes, the Transactions shall qualify for Tax-Free Status pursuant to Sections 351, 355, 361, 368(a) and related provisions of the Code, and, in furtherance of such intent NGC has obtained the IRS Ruling and entered into the IRS Closing Agreement.

L. The Parties wish to provide for the payment of Tax liabilities and entitlement to refunds thereof, to allocate responsibility for, and cooperation in, the filing of Tax Returns, to set forth covenants, undertakings, agreements, representations, warranties, and indemnities relating to the Tax-Free Status of the Transactions, to provide for the exercise of NGC’s functions as Current Tax Group Agent, and to provide for certain other matters relating to Taxes.

AGREEMENT

In consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE 1
DEFINITIONS

Section 1.1 Definitions

For the purposes of this Agreement:


“Adjustment Request” means any formal or informal written claim or request made to a Tax Authority by an NGC Group Member, a New NGC Group Member, or an HII Group Member for an adjustment to Taxes, whether such adjustment is positive or negative (by refund, credit, offset, or otherwise), including (i) an amended Tax Return claiming an adjustment to Taxes as reported on the originally filed Tax Return or, if applicable, as previously adjusted or (ii) a self-initiated adjustment or similar claim made, during the course of a Tax Proceeding or otherwise. Such term shall not include an adjustment to Tax initiated by a Tax Authority during a Tax Proceeding.
“Affiliate” has the meaning set forth in the Separation and Distribution Agreement.

“Agency Regulations” means Treasury Regulations Section 1.1502-77 and any similar regulation in another Tax jurisdiction.

“Business Day” has the meaning set forth in the Separation and Distribution Agreement.


“Current Tax Group Agent” means the sole agent authorized to act in its own name for Members of the Current Tax Group with respect to matters relating to liability for U.S. federal Income Taxes and any other Taxes to which such agency applies.

“Current Tax Group Federal Consolidated Return” means a U.S. federal Income Tax Return filed or required to be filed by NGC or New NGC as the common parent of the Current Tax Group.

“Current Tax Group Member” means a member of a Current Tax Group for a relevant Taxable Period (or portion of a Taxable Period).

“Distribution” has the meaning set forth in the Separation and Distribution Agreement.

“Distribution Date” has the meaning set forth in the Separation and Distribution Agreement.

“Employee Matters Agreement” has the meaning set forth in the Separation and Distribution Agreement.

“Final Determination” means the final resolution of liability for any Tax, for any issue and for any Taxable Period, by or as a result of (i) IRS Form 870-AD (or any successor form) or a comparable form under any state, local or foreign law on the date of acceptance by or on behalf of the relevant Tax Authority, except that a Form 870-AD or comparable form that reserves the right of the taxpayer to file a claim for refund and/or the right of the Tax Authority to assert a further deficiency shall not constitute a Final Determination with respect to the item or items so reserved, (ii) a final decision, judgment, decree or other order by any court of competent jurisdiction that can no longer be appealed or reheard, (iii) a closing agreement or similar agreement entered into with a Tax Authority in connection with an administrative or judicial proceeding, (iv) an allowance of a refund or credit in respect of an overpayment of Tax, but only after the expiration of all periods of limitations during which such refund or credit may be recovered by the jurisdiction imposing the Tax, (v) any other final resolution, including by reason of the expiration of the applicable period of limitations or the execution of a pre-filing agreement with the applicable Tax Authority, or (vi) the occurrence of any event which the parties agree in writing is a Final Determination.

“HII Group” means, for any relevant time beginning immediately after the Distribution, HII and each Subsidiary of HII at such time.
“HII Group Member” means HII, each Person that is a Subsidiary of HII immediately after the Distribution (including NGC), and each Person that becomes a Subsidiary of HII after the Distribution.

“HII Tax Group Member” means a member of the HII Tax Group for a relevant Taxable Period (or portion of a Taxable Period).

“HII Tax Return” means a Tax Return filed or required to be filed by an HII Group Member after the Distribution Date (excluding a Tax Return filed or required to be filed by NGC for a Pre-Distribution Taxable Period or a Straddle Taxable Period and, for avoidance of doubt, excluding a New NGC Non-Federal Tax Return and a Current Tax Group Federal Consolidated Return).

“Holding Company Reorganization” has the meaning set forth in the Separation and Distribution Agreement.

“Income Tax” means a Tax based upon, measured by, or calculated with respect to (i) net income or profits or net receipts (including, but not limited to, any capital gains, minimum Tax or any Tax on items of Tax preference, but not including sales, use, real or personal property, or transfer or similar Taxes) or (ii) multiple bases (including corporate franchise, doing business and occupation Taxes) if one or more bases upon which such Tax may be based, by which such Tax may be measured, or with respect to which such Tax may be calculated, is described in clause (i).

“Income Tax Adjustment” means any change in any Income Tax Item, whether resulting from a Tax Proceeding or an Adjustment Request; provided, however, that a claim for refund resulting from a carryback of a loss, credit or other Tax Attribute in a Post-Distribution Taxable Period to a Pre-Distribution Taxable Period or a Straddle Taxable Period is not an Income Tax Adjustment.

“Income Tax Item” means any item of income, gain, loss, deduction, credit, recapture of credit, or any other item (including the adjusted basis of property) relating to the determination of Income Taxes payable in any Taxable Period.


“Independent Firm” means a nationally recognized law firm or accounting firm which, at the relevant time, does not provide, and within the preceding two years has not provided, substantial services to any of the Parties.

“Information” has the meaning set forth in the Separation and Distribution Agreement.

“Internal Reorganization” has the meaning set forth in the Separation and Distribution Agreement.

“IRS” means the U.S. Internal Revenue Service or any successor thereto.
“IRS Closing Agreement” means the closing agreement, effective February 14, 2011, between NGC (as parent of the Current Federal Tax Group), HII (as the parent of the HII Tax Group) and the IRS, entered into in connection with the Transactions and the IRS Ruling.

“IRS Ruling” means the U.S. federal income tax private letter ruling, issued October 14, 2010, and the supplement thereto, issued February 14, 2011, by the IRS in connection with the Transactions.

“Law” has the meaning set forth in the Separation and Distribution Agreement.

“Member” refers to an NGC Group Member, a Current Tax Group Member, an HII Group Member, an HII Tax Group Member or a New NGC Group Member, as the case may be.

“New NGC Group” means, for any relevant time beginning immediately after the Distribution, New NGC and each Subsidiary of New NGC at such time.

“New NGC Group Member” means New NGC, each Person that is a Subsidiary of New NGC immediately after the Distribution, and each Person that becomes a Subsidiary of New NGC after the Distribution.

“New NGC Non-Federal Tax Return” means a Tax Return (other than a Current Tax Group Federal Consolidated Return) (i) that is filed or required to be filed by a New NGC Group Member after the Distribution Date or (ii) that is filed or required to be filed after the Distribution Date and includes an Income Tax Item or an asset of a New NGC Group Member, or otherwise relates to the Retained Business (which shall include a Tax Return that is required to be filed after the Distribution Date that includes an Income Tax Item or an asset of a New NGC Group Member and an Income Tax Item or an asset of an HII Group Member).

“NGC Group” means, for any relevant time ending immediately before the Holding Company Reorganization, NGC and each Subsidiary of NGC at such time.

“NGC Group Member” means NGC and each Subsidiary of NGC at any time before the Holding Company Reorganization.

“NGC Non-Federal Tax Return” means a Tax Return, other than a Current Tax Group Federal Consolidated Return, required to be filed by an NGC Group Member prior to or on the Distribution Date.

“NGC Tax Officer” means the officer of NGC with full authority with respect to Tax matters.

“Opinion” means the opinion of Tax Counsel, dated March 14, 2011, with respect to certain Tax aspects of the Transactions.

“Person” has the meaning set forth in the Separation and Distribution Agreement.

“Post-Distribution Taxable Period” means any Taxable Period (or portion thereof) beginning after the Distribution Date.
“Pre-Distribution Taxable Period” means any Taxable Period (or portion thereof) ending on or before the Distribution Date.

“Refund” means any refund of Taxes (including any overpayment of Taxes that can be refunded or, alternatively, applied to other Taxes payable), including any interest paid on or with respect to such refund of Taxes.

“Retained Business” has the meaning set forth in the Separation and Distribution Agreement.

“Retained Liabilities” has the meaning set forth in the Separation and Distribution Agreement.

“Shared Gain” has the meaning set forth in the Separation and Distribution Agreement.

“Shared Liability” has the meaning set forth in the Separation and Distribution Agreement.

“Shipbuilding Business” has the meaning set forth in the Separation and Distribution Agreement.

“Shipbuilding Liabilities” has the meaning set forth in the Separation and Distribution Agreement.

“Straddle Taxable Period” means a Taxable Period that begins on or before and ends after the Distribution Date.

“Subsidiary” has the meaning set forth in the Separation and Distribution Agreement.

“Tax” means (i) a tax, charge, fee, duty, levy, impost or other similar assessment, imposed by any U.S. federal, state or local or foreign governmental authority, including, but not limited to, income, gross receipts, excise, property, sales, use, license, stock, franchise, payroll, employment, withholding, social security, transfer, value added and other taxes, (ii) interest attributable thereto, (iii) a penalty or addition attributable thereto or to a failure to file a Tax Return or a form, schedule or information properly includible thereon, and (iv) a liability in respect of any item described in clause (i), (ii) or (iii), payable by reason of assumption, transferee or successor liability, operation of Law or several liability pursuant to Treasury Regulations Section 1.1502-6(a).

“Tax Attribute” means a net operating loss, capital loss, earnings and profits, overall foreign loss, previously taxed income, separate limitation loss, and any other Tax attribute.

“Tax Authority” means a governmental authority or subdivision, agency, commission or entity thereof or a quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of a Tax (including the IRS).

“Tax Counsel” means Ivins, Phillips & Barker, Chartered.
“Tax-Free Status” means the Tax treatment accorded to the Transactions as set forth in the IRS Ruling and the Opinion.

“Tax Group” means any U.S. federal, state, local or foreign affiliated, consolidated, combined, unitary or similar group or fiscal unity that joins in the filing of a single Tax Return.

“Tax Materials” means, collectively, (i) the IRS Ruling, (ii) the IRS Closing Agreement, (iii) each submission to the IRS in connection with the IRS Ruling, (iv) the Opinion, (v) the representation letters from NGC, New NGC and HII, addressed to Tax Counsel supporting the Opinion, and (vi) any other materials delivered or deliverable by NGC, New NGC or HII in connection with the issuance of the IRS Ruling, the negotiation, drafting, execution and approval of the IRS Closing Agreement and the rendering of the Opinion.

“Tax Matters Dispute” means a dispute arising in connection with this Agreement between the Parties, other than a Tax Proceeding (except to the extent provided in Section 5.1) or a Tax Agency Dispute.

“Tax Proceeding” means any audit, examination, investigation, action, suit, claim, assessment, appeal, Adjustment Request, or other administrative or judicial proceeding relating to Taxes.

“Tax Return” means (i) a return, report, certificate, form or similar statement or document (including any related or supporting information or schedule attached thereto and any information return, or declaration of estimated Tax) required to be supplied to, or filed with, a Tax Authority in connection with the payment, determination, assessment or collection of a Tax or the administration of a Law relating to a Tax or (ii) an amended Tax Return.

“Taxable Period” means any period for which a liability for Tax is determined.

“Transactions Tax” means a Tax imposed on the Holding Company Reorganization, the Internal Reorganization, or the Distribution, or by reason of a failure of the Holding Company Reorganization, the Internal Reorganization, or the Distribution to qualify for Tax-Free Status (including an intercompany transaction triggered by reason of such failure).

“Treasury Regulations” means the final and temporary (but not proposed) Income Tax regulations promulgated under the Code, as in effect at the relevant time (including any successor regulation or rule of law), and any similar regulation or rule of law promulgated by another relevant jurisdiction.

“Unqualified Tax Opinion” means a “will” opinion, without substantive qualification, rendered by a nationally recognized law firm, which law firm is reasonably acceptable to New NGC, to the effect that a transaction or event, or a series of transactions and/or events, will not affect the Tax-Free Status of the Transactions.

Section 1.2 Table of Additional Defined Terms
The following terms have the meanings set forth in the Sections referenced below:

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ARTICLE 2
PREPARATION AND FILING OF TAX RETURNS,
PAYMENT OF TAXES DUE AFTER THE DISTRIBUTION DATE,
AND ADJUSTMENT REQUESTS

Section 2.1 Current Tax Group Federal Consolidated Returns.

New NGC shall be responsible for preparing and filing all Current Tax Group Federal Consolidated Returns filed or required to be filed after the Distribution Date and for paying all Taxes shown payable on all such Tax Returns.

Section 2.2 New NGC Non-Federal Tax Returns.

New NGC shall be responsible for preparing and filing, or causing the relevant New NGC Group Member to prepare and file, all New NGC Non-Federal Tax Returns and for paying or causing such New NGC Group Member to pay all Taxes shown as payable on all New NGC Non-Federal Tax Returns.

Section 2.3 HII Tax Returns.

HII shall be responsible for preparing and filing, or causing the relevant HII Group Member to prepare and file, all HII Tax Returns. HII shall pay or cause such HII Group Member to pay to the appropriate Tax Authority all Taxes shown as payable on all HII Tax Returns.
Section 2.4 Adjustment Requests.

(a) New NGC Adjustment Requests. New NGC shall, in its sole discretion, be permitted to make, or to decline to make, an Adjustment Request relating to an NGC Non-Federal Tax Return, a Current Tax Group Federal Consolidated Return or a New NGC Non-Federal Tax Return, subject, in each case, to ARTICLE 5.

(b) HII Adjustment Requests. HII shall, in its sole discretion, be permitted to make, or to decline to make, an Adjustment Request relating to any HII Tax Return.

Section 2.5 Procedures.

(a) In connection with the preparation of any Current Tax Group Federal Consolidated Return pursuant to Section 2.1, any New NGC Non-Federal Tax Return pursuant to Section 2.2, or any Adjustment Request pursuant to Section 2.4, HII shall, at its own cost and expense, provide pro forma Tax Returns or equivalent financial and other data relating to HII and any relevant HII Group Member, to be used in the preparation of such Tax Return or Adjustment Request, in accordance with past practices, procedures, Accounting Methods, elections, and conventions, and shall assist and cooperate with New NGC in any other manner reasonably requested by New NGC.

(b) To the extent provided in ARTICLE 10, New NGC shall perform the actions described in Section 2.1, Section 2.2, and Section 2.4(a) through NGC, the NGC Tax Officer and persons designated by the NGC Tax Officer, at New NGC’s sole cost and expense.

(c) In connection with the preparation of any HII Tax Return filed pursuant to Section 2.3, New NGC shall, at its own cost and expense, assist and cooperate with HII in any manner reasonably requested by HII.

(d) Except as otherwise provided in this Agreement, each Party shall bear its own costs and expenses incurred in connection with this ARTICLE 2.

ARTICLE 3 GENERAL INDEMNIFICATION FOR TAXES

Section 3.1 Indemnification by New NGC.

New NGC shall be responsible for paying, and shall indemnify and hold each HII Group Member harmless from and against, (a) Taxes shown as payable on, and any increase in Taxes payable with respect to, NGC Non-Federal Tax Returns, Current Tax Group Federal Consolidated Returns, and New NGC Non-Federal Tax Returns, and (b) any other Taxes payable by New NGC Group Members or relating to the Retained Business; provided, however, that New NGC’s obligations pursuant to this Section 3.1 shall be separate from New NGC’s obligations to HII pursuant to Section 6.2, Section 7.5, Section 8.4(b), and Section 10.4; provided further, that New NGC’s obligations pursuant to this Section 3.1 shall not affect HII’s obligations to New NGC pursuant to Section 6.1, Section 7.5, Section 8.4(a), and Section 10.4.
Section 3.2 Indemnification by HII.

HII shall be responsible for paying, and shall indemnify and hold each New NGC Group Member harmless from and against, (a) Taxes shown as payable on, and any increase in Taxes payable with respect to, HII Tax Returns and (b) any other Taxes payable by HII Group Members or relating to the Shipbuilding Business for any Post-Distribution Taxable Period; provided, however, that HII’s obligations pursuant to this Section 3.2 shall be separate from HII’s obligations to New NGC pursuant to Section 6.1, Section 7.5, Section 8.4(a), and Section 10.4(a); provided further that HII’s obligations pursuant to this Section 3.2 shall not affect New NGC’s obligations to HII pursuant to Section 6.2, Section 7.5, Section 8.4(b), and Section 10.4.

ARTICLE 4
REFUNDS AND CARRYBACKS

Section 4.1 Refunds.

(a) New NGC shall be entitled to any Refund due with respect to an NGC Non-Federal Tax Return, a Current Tax Group Federal Consolidated Return, and a New NGC Non-Federal Tax Return; provided, however, that New NGC’s receipt of a Refund with respect to any such Tax Return shall not affect New NGC’s obligations to HII pursuant to Section 6.2, Section 7.5, or Section 8.4(b) and shall not affect HII’s obligations to New NGC pursuant to Section 6.1, Section 7.5, or Section 8.4(a). If a Refund due with respect to an NGC Non-Federal Tax Return, a Current Tax Group Federal Consolidated Return, or a New NGC Non-Federal Tax Return is paid to an HII Group Member (including NGC) by a Tax Authority, such Member shall remit such Refund to New NGC.

(b) HII shall be entitled to any Refund due with respect to an HII Tax Return; provided, however, that HII’s receipt of a Refund with respect to any such Tax Return shall not affect HII’s obligations to New NGC pursuant to Section 6.1, Section 7.5, or Section 8.4(a) and shall not affect New NGC’s obligations to HII pursuant to Section 6.2, Section 7.5, or Section 8.4(b). Except as provided in Section 4.2(b), if a Refund due with respect to an HII Tax Return is paid to a New NGC Group Member by a Tax Authority, such Member shall remit such Refund to HII.

(c) To the extent provided in ARTICLE 10, New NGC shall perform the actions described in this ARTICLE 4 through NGC, the NGC Tax Officer and persons designated by the NGC Tax Officer, at New NGC’s sole cost and expense.

Section 4.2 Carrybacks.

(a) New NGC Carrybacks.

(i) If the Current Tax Group or a New NGC Group Member realizes a loss, credit, or other Tax Attribute that may be carried back to a Pre-Distribution Taxable Period or a Straddle Taxable Period (whether by (i) electing to carry back such loss, credit, or other Tax Attribute to a Pre-Distribution Taxable Period or a Straddle Taxable Period, or (ii) not electing to waive the carryback of such loss, credit, or other Tax Attribute to a Pre-Distribution Taxable Period or a Straddle Taxable Period), the Current Tax Group or such
Member may, in its sole discretion, carry back such loss, credit, or other Tax Attribute to such Pre-Distribution Taxable Period or a Straddle Taxable Period. HII shall cooperate with New NGC in seeking any Refund resulting from such carryback, at New NGC’s cost and expense. New NGC shall be entitled to any Refund resulting from a carryback pursuant to this Section 4.2(a)(i). If any such Refund is paid to an HII Group Member (including NGC) by a Tax Authority, such Member shall remit such Refund to New NGC.

(ii) Notwithstanding Section 4.2(a)(i), if by Law the New NGC Group or a New NGC Group Member may utilize a loss, credit, or other Tax Attribute only by a carryback of such loss, credit, or other Tax Attribute to a Pre-Distribution Taxable Period or a Straddle Taxable Period, HII shall cooperate with New NGC in seeking any Refund resulting from such carryback, at New NGC’s cost and expense. New NGC shall be entitled to any Refund resulting from a carryback pursuant to this Section 4.2(a)(ii).

(b) HII Carrybacks.

(i) If the HII Group or an HII Group Member realizes a loss, credit or other Tax Attribute in a Post-Distribution Taxable Period that may be carried back to a Pre-Distribution Taxable Period or a Straddle Taxable Period (whether by (i) electing to carry back such loss, credit, or other Tax Attribute to a Pre-Distribution Taxable Period or a Straddle Taxable Period, or (ii) not electing to waive the carryback of such loss, credit, or other Tax Attribute to a Pre-Distribution Taxable Period or a Straddle Taxable Period), and HII wishes to carry back such loss, credit, or other Tax Attribute to a Pre-Distribution Taxable Period or a Straddle Taxable Period, HII shall notify New NGC in writing of HII’s wish to carry back such loss, credit, or other Tax Attribute (a “Carryback Election Request”). A Carryback Election Request shall include a computation of the amount of such loss, credit, or other Tax Attribute, and a certification by an appropriate officer of HII setting forth HII’s belief (together with supporting analysis) that the Tax treatment of such loss, credit, or other Tax Attribute is more likely than not correct. New NGC shall have sole discretion to deny a Carryback Election Request.

(ii) New NGC may consent to the carryback of a loss, credit, or other Tax Attribute set forth in the Carryback Election Request upon New NGC’s determination (in its sole discretion) that the Parties have agreed to (A) the procedures for carrying back such loss, credit, or other Tax Attribute (including by making an Adjustment Request, at HII’s cost and expense), (B) the determination of the amount or portion of any Refund resulting from such carryback that shall be paid to HII pursuant to this Section 4.2(b)(ii), and (C) the timing of any payment to be made by New NGC to HII with respect to such carryback and any interest that shall accrue on any late payment. To the extent any Refund subject to this Section 4.2(b)(ii) is later reduced in a Final Determination, the Parties shall use their best efforts to agree to the amount of such Refund that HII shall repay to New NGC, together with any interest, fines, additions to Tax, penalties, or any additional amounts imposed by a Tax Authority relating thereto.

(iii) Notwithstanding Section 4.2(b)(ii), if by Law the HII Group or an HII Group Member may utilize a loss, credit, or other Tax Attribute only by a carryback of such loss, credit, or other Tax Attribute from a Post-Distribution Taxable Period to a New NGC
Non-Federal Tax Return or an NGC Non-Federal Tax Return for a Pre-Distribution Taxable Period or a Straddle Taxable Period, New NGC shall cooperate with HII in carrying back such loss, credit, or other Tax Attribute (including by filing of an amended Current Tax Group Federal Consolidated Tax Return, NGC Non-Federal Tax Return, or New NGC Non-Federal Tax Return or making an Adjustment Request with respect to any such Tax Return, which shall be at HII’s cost and expense). The Parties shall use their best efforts to agree with respect to the matters set forth in clauses (A), (B) and (C) of Section 4.2(b)(ii). To the extent any Refund subject to this Section 4.2(b)(iii) is later reduced in a Final Determination, the Parties shall use their best efforts to agree to the amount of such Refund that HII shall repay to New NGC, together with any interest, fines, additions to Tax, penalties, or any additional amounts imposed by a Tax Authority relating thereto.

ARTICLE 5
TAX PROCEEDINGS

Section 5.1 Control of Tax Proceedings.

(a) Control by New NGC.

(i) New NGC shall be entitled to control and settle any Tax Proceeding relating to (A) an NGC Non-Federal Tax Return, (B) a Current Tax Group Federal Consolidated Return, or (C) a New NGC Non-Federal Tax Return (including, in each case, any Tax Proceedings relating to a Transactions Tax).

(ii) New NGC may take any and all actions necessary or incident to the control and settlement of any Tax Proceeding relating to (A) an NGC Non-Federal Tax Return, (B) a Current Tax Group Federal Consolidated Return (subject to the IRS Closing Agreement), or (C) a New NGC Non-Federal Tax Return (including, in each case, any Tax Proceedings relating to a Transactions Tax).

(iii) To the extent provided in ARTICLE 10, New NGC shall perform any actions under this ARTICLE 5 through NGC, the NGC Tax Officer and persons designated by the NGC Tax Officer.

(iv) If a settlement of a Tax Proceeding within the control of New NGC pursuant to this ARTICLE 5 (or an action proposed to be taken with respect thereto) reasonably could be expected to give rise to a payment by HII pursuant to Section 6.1, Section 7.5, or Section 8.4(a), or could be expected to give rise to a payment to HII pursuant to Section 6.2, Section 7.5, or Section 8.4(b), then New NGC shall cause NGC and the NGC Tax Officer to provide copies of all correspondence and all filings to be submitted to a Tax Authority or judicial authority in connection with such Tax Proceeding for review by HII prior to submission to the Tax Authority or judicial authority; provided, however, that failure by New NGC to provide such correspondence to HII shall not relieve HII of any obligation pursuant to Article 6.1, Article 7.5, or Article 8.4(a), except to the extent HII is actually prejudiced by such failure.

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(v) New NGC shall (and, if such Tax Proceeding is subject to ARTICLE 10, shall cause NGC and the NGC Tax Officer to) provide written notice to HII of any settlement with a Tax Authority that reasonably could be expected to give rise to a payment by HII pursuant to Section 6.1, Section 7.5, or Section 8.4(a), or a payment to HII pursuant to Section 6.2, Section 7.5, or Section 8.4(b). HII shall not have the right to prevent any such settlement but shall have the right to contest the amount of its liability to New NGC pursuant to Section 6.1, Section 7.5, or Section 8.4(a) or the amount of its payment from New NGC pursuant to Section 6.2, Section 7.5, or Section 8.4(b) resulting from such settlement. HII shall provide written notice to New NGC of its intention to contest the amount of its obligation to New NGC pursuant to Section 6.1, Section 7.5, or Section 8.4(a) or the amount of New NGC’s obligation to HII pursuant to Section 6.2, Section 7.5, or Section 8.4(b) prior to the time such settlement is entered into (but in any event HII shall have no less than 10 days from the time it receives notice of such settlement from New NGC to provide notice to New NGC of its intent to contest such settlement). Any contest by HII pursuant to this Section 5.1(a)(v) shall be conducted as a Tax Matters Dispute under the procedures set forth in Section 11.2. If the negotiations required thereby are not successful, the Tax Arbitrator shall determine the amount of a settlement with the relevant Tax Authority that would most accurately reflect the litigation risk of the relevant issue. HII shall be liable to New NGC, or New NGC shall be liable to HII, as the case may be, based solely on the determination of the Tax Arbitrator as if a settlement implementing such determination had actually occurred, without regard to the actual settlement with the Tax Authority. Neither HII nor New NGC shall be required to pay any obligation arising from a contested settlement subject to this Section 5.1(a)(v) until the contest is either decided by the Tax Arbitrator or resolved between the parties; provided, however, that, pursuant to Section 11.1 interest shall accrue with respect to such obligation with the written notice pursuant to this Section 5.1(a)(v) treated as a demand for such payment.

(b) Control by HII. HII shall be entitled to control, contest, compromise and settle any adjustment proposed, asserted or assessed pursuant to any Tax Proceeding relating to any HII Tax Return.

Section 5.2 Notices Relating to Tax Proceedings

(a) Except as otherwise provided in Section 5.2(b), if any Party becomes aware of the commencement of a Tax Proceeding that may give rise to Taxes for which another Party is responsible pursuant to ARTICLE 3 or which may give rise to a payment obligation under ARTICLE 6, Section 7.5, or Section 8.4, the Party that so becomes aware shall notify such other Party of such Tax Proceeding within 10 days after so becoming aware and thereafter shall promptly provide to such other Party copies of notices and communications relating to such Tax Proceeding.

(b) If an HII Group Member (including NGC) receives a notice or correspondence relating to a Tax Proceeding subject to Section 5.2(a), such HII Group Member shall promptly provide a copy of such notice or correspondence to the NGC Tax Officer so as to allow New NGC to exercise the control over such Tax Proceedings through NGC and the NGC Tax Officer, as provided in ARTICLE 10.
Section 5.3 Statute of Limitations

Any extension of the statute of limitations for any Taxes or a Tax Return for any Pre-Distribution Taxable Period or a Straddle Taxable Period may be made only by the Party responsible for the preparation and filing of such Tax Return pursuant to ARTICLE 2.

ARTICLE 6
PAYMENTS BETWEEN HII AND NEW NGC
FOR CERTAIN INCOME TAX ADJUSTMENTS

Section 6.1 Payments by HII to New NGC

(a) General. Except as otherwise provided in Section 7.5 and Section 8.4(a), upon a Final Determination resulting in an Income Tax Adjustment to (i) a Current Tax Group Federal Consolidated Return, (ii) an NGC Non-Federal Tax Return, or (iii) a New NGC Non-Federal Tax Return, in each case for a Pre-Distribution Taxable Period or a Straddle Taxable Period, HII shall pay to New NGC the amount set forth in Section 6.1(b) (subject to the limitations in Section 6.1(c) and Section 6.2(d)).

(b) Payment by HII to New NGC for Income Tax Adjustments to Current Tax Group Federal Consolidated Returns. In the event of an Income Tax Adjustment relating to an Income Tax Item of an HII Group Member (except NGC) on a Current Tax Group Federal Consolidated Return for a Pre-Distribution Taxable Period, the amount payable by HII to New NGC hereunder shall be 35 percent of any increase, by reason of such Income Tax Adjustment, in (i) the taxable income of such Member for such Pre-Distribution Taxable Period (as determined pursuant to Section 7.1(a)) or Straddle Taxable Period (to the extent attributable to the portion of such Straddle Period ending on or before the Distribution Date as determined pursuant to Section 7.1(b)) over (ii) the taxable income of such Member that was included in the determination of Tax shown as payable (or the Refund shown as due) on such Tax Return, as last filed before the Distribution Date and modified by any subsequent Adjustment Request made before the Distribution Date.

(c) Limitation on Payment Obligation. An Income Tax Adjustment resulting in an increase in taxable income of an HII Group Member on a Current Tax Group Federal Consolidated Return for a Pre-Distribution Taxable Period or a Straddle Taxable Period shall not result in a payment obligation by HII pursuant to Section 6.1(b), unless such Income Tax Adjustment is of a nature that could result in a correlative reduction in the taxable income of an HII Group Member for a Post-Distribution Taxable Period (as determined pursuant to Section 7.1(a)) or a Straddle Taxable Period (to the extent attributable to the portion of such Straddle Taxable Period beginning on or after the Distribution Date as determined pursuant to Section 7.1(b)). In determining whether such an increase in taxable income of an HII Group Member is of a nature that could result in a reduction in taxable income of an HII Group Member for a Post-
Distribution Period or a Straddle Period (to the extent attributable to the portion of the Straddle Period beginning on or after the Distribution Date as determined pursuant to Section 7.1(b), the actual availability to the HII Group or such Member of any Tax benefit attributable thereto (whether due to losses incurred by the HII Group in a Post-Distribution Taxable Period or a Straddle Period, Income Tax Adjustments relating to non-depreciable, non-amortizable assets, or otherwise) shall not be taken into account. This Section 6.1(c) shall not apply to any payment due under Section 7.5 or Section 8.4.


Section 6.2 Payments by New NGC to HII

(a) General. Except as otherwise provided in Section 7.5 and Section 8.4(b), upon a Final Determination resulting in an Income Tax Adjustment to (i) a Current Tax Group Federal Consolidated Return, (ii) an NGC Non-Federal Tax Return, or (iii) a New NGC Non-Federal Tax Return, in each case for a Pre-Distribution Taxable Period, New NGC shall pay to HII the amount set forth in Section 6.2(b) (subject to the limitations in Section 6.2(c) and Section 6.2(d)).

(b) Payment by New NGC to HII for Income Tax Adjustments to Current Tax Group Federal Consolidated Returns. In the event of an Income Tax Adjustment relating to an Income Tax Item of an HII Group Member on a Current Tax Group Federal Consolidated Return for a Pre-Distribution Taxable Period or a Straddle Taxable Period, the amount payable by New NGC to HII hereunder shall be 35 percent of any decrease, by reason of such Income Tax Adjustment, in (i) the taxable income of such Member for such Pre-Distribution Taxable Period (as determined pursuant to Section 7.1(a)) or a Straddle Taxable Period (to the extent attributable to the portion of such Straddle Period ending on or before the Distribution Date as determined pursuant to Section 7.1(b)) from (ii) the taxable income of such Member that was included in the determination of Tax shown as payable (or the Refund shown as due) on such Tax Return, as last filed before the Distribution Date and modified by any subsequent Adjustment Request made before the Distribution Date.

(c) Limitation on Payment Obligations. An Income Tax Adjustment resulting in a decrease in taxable income of an HII Group Member on a Current Tax Group Federal Consolidated Return for a Pre-Distribution Taxable Period or a Straddle Taxable Period shall not result in a payment obligation by New NGC pursuant to Section 6.2(b), unless such Income Tax Adjustment is of a nature that could result in a correlative increase in the taxable income of an HII Group Member for a Post-Distribution Taxable Period (as determined pursuant to Section 7.1(a)) or a Straddle Taxable Period (to the extent attributable to the portion of such Straddle Taxable Period beginning on or after the Distribution Date as determined pursuant to Section 7.1(b). In determining whether such a decrease in taxable income of an HII Group Member is of a nature that could result in an increase in taxable income of an HII Group Member for a Post-Distribution Period or a Straddle Period, the actual incurrence by the HII Group or such Member
(d) **Tax Adjustments to NGC Non-Federal Tax Returns and New NGC Non-Federal Tax Returns.** Payments relating to adjustments for non-federal Taxes on NGC Non-Federal Tax Returns and New NGC Non-Federal Tax Returns shall be determined solely in accordance with Section 8.7 of the Separation and Distribution Agreement (relating to “Government Contract Matters”).

**Section 6.3 Threshold Amount.**

(a) HII shall not have an obligation to make a payment under Section 6.1(a), and New NGC shall not have a payment obligation under Section 6.2(a), unless and until the aggregate amount of payments otherwise due by such Party (the “**Payor Party**”) to the other Party (the “**Payee Party**”) under Section 6.1(a) and Section 6.2(a) exceeds by more than $5,000,000 (the “**Threshold Amount**”) the aggregate amount of payments otherwise due by the Payee Party to the Payor Party under Section 6.1(a) and Section 6.2(a).

(b) If the Threshold Amount is exceeded, the Payor Party shall be liable under Section 6.1(a) and Section 6.2(a) only for a payment or payments in excess of the Threshold Amount.

(c) If, after a payment becomes due under Section 6.1(a) and Section 6.2(a), a subsequent payment becomes due under Section 6.1(a) and Section 6.2(a) by either the Payor Party or the Payee Party (not taking account the Threshold Amount in Section 6.3(a)), the amount of the subsequent payment due between the Parties shall be adjusted to effectuate the aggregate nature of the Parties’ payment obligations under Section 6.1(a) and Section 6.2(a), including the Threshold Amount in Section 6.3(a).

(d) Section 6.3(a) shall not apply to any payment due under Section 7.5, Section 8.4, or Section 10.4.

**Section 6.4 Separate Entity Provisions.**

(a) For purposes of computing the taxable income of an HII Group Member in determining the amount payable in Section 6.1 or Section 6.2:

(i) each HII Group Member shall be treated as a stand-alone corporation that filed a separate Income Tax Return based solely on the Income Tax Items and apportionment factors of such Member (but reflecting elections and Accounting Methods used by the NGC Group for the relevant Current Tax Group Federal Consolidated Return, NGC Non-Federal Tax Return, or New NGC Non-Federal Tax Return);

(ii) no net operating loss, net capital loss, or other loss carryover or carryback deduction shall be taken into account; and
(iii) a decrease in an amount of net operating loss or capital loss shall be treated as an increase in taxable income, and an increase in an amount of net operating loss or capital loss shall be treated as a decrease in taxable income.

(b) This Section 6.4 shall not apply to any payment due under Section 7.5, Section 8.4, or Section 10.4.

Section 6.5 Acknowledgement.

New NGC and HII acknowledge and agree that the reason for the methodology for determining payments as set forth in Section 6.1 or Section 6.2 is that the precise computation of actual Tax detriment or Tax benefit resulting from an Income Tax Adjustment or combinations of Income Tax Adjustments to taxable income may be difficult or impossible to determine and that the payments provided for in Section 6.1 or Section 6.2 are in lieu of any payments or indemnities relating to the actual amount of adjustment to Taxes.

ARTICLE 7
ALLOCATION, CHARACTER, AND TREATMENT OF CERTAIN TAX ITEMS AND TRANSACTIONS

Section 7.1 Allocation of Certain Tax Items.

(a) Allocation Between Taxable Periods. If applicable law requires the Taxable Period of any HII Group Member that was a member of the Current Tax Group to end as of the close of the Distribution Date, Income Tax Items shall be included in each Taxable Period in accordance with Treasury Regulations Section 1.1502-76(b)(2)(i) with no election under Treasury Regulations Section 1.1502-76(b)(2)(ii) or (iii).

(b) Allocation Within a Straddle Taxable Period. If applicable law does not require the Taxable Period of HII and each HII Group Member that was a member of the Current Tax Group to end as of the close of the Distribution Date, then the amount of Income Tax Items attributable to each portion of the Straddle Taxable Period shall be determined by means of a closing of the books and records of such HII Group Member as of the close of the Distribution Date; provided, however, that exemptions, allowances or deductions that are calculated on an annual or periodic basis shall be allocated between such portions in proportion to the number of days in each such portion.

(c) Extraordinary Transactions. Notwithstanding anything to the contrary in this Agreement, for all Tax purposes, New NGC and HII each shall report any transaction that is outside the ordinary course of the normal day-to-day operations of the Shipbuilding Business that is undertaken, caused, or permitted by any HII Group Member that occurs on the Distribution Date but after the Distribution as occurring on the day after the Distribution Date pursuant to Treasury Regulations Section 1.1502-76(b)(2)(ii)(D) or any similar or analogous provision of state, local or foreign Law. New NGC shall not make a ratable allocation election pursuant to Treasury Regulations Section 1.1502-76(b)(2)(ii)(D) or any similar or analogous provision of state, local or foreign Law.
Section 7.2 Tax Treatment of Payments between the Parties.

(a) Payments Pursuant to this Agreement. Each of New NGC and HII covenants and agrees that it will, and will cause each of its respective Subsidiaries to, treat the payments described below in the following manner for all Tax purposes:

(i) A payment by HII to New NGC under Section 6.1, Section 7.5, Section 8.4, or Section 10.4 and a payment by NGC to New NGC under Section 10.3(b) shall be treated as a distribution by HII to New NGC immediately prior to the Distribution.

(ii) A payment by New NGC to HII under Section 6.2, Section 7.5, Section 8.4, or Section 10.4 and a payment by New NGC to NGC under Section 10.3(a) shall be treated as a contribution by New NGC to HII immediately prior to the Distribution.

(iii) A payment of interest under Section 11.1 shall be treated as taxable or deductible, as the case may be, in either case except as otherwise required by applicable Law.

(b) Payments Pursuant to Separation and Distribution Agreement and Ancillary Agreements.

(i) In General. New NGC and HII each covenants and agrees that it will, and will cause each of its respective Subsidiaries to, treat an indemnity payment pursuant to the Separation and Distribution Agreement (other than payments made with respect to Shared Gains or Shared Liabilities) or any Ancillary Agreement, to the extent attributable to a Pre-Distribution Taxable Period or the portion of such Straddle Period ending on or before the Distribution Date as determined pursuant to Section 7.1(b), as a contribution by New NGC to HII or a distribution by HII to New NGC, as the case may be, immediately prior to the Distribution.

(ii) Shared Gains and Shared Liabilities. Consistent with Section 9.1, the Parties shall consult and negotiate in determining the tax treatment of Shared Gains and Shared Liabilities, as allocated in the Separation and Distribution Agreement, and of any indemnity payments between the Parties with respect thereto. In such consultations and negotiations, the Parties shall seek to achieve consistency in their respective Tax treatment and reporting of such matters and, to the extent allowed by Law, Tax treatment that is consistent with the economic benefits and burdens of such allocations and indemnities.

Section 7.3 Tax Treatment of Novations of Shipbuilding Liabilities and Retained Liabilities.

Each Party covenants and agrees that it will, and will cause each of its respective Subsidiaries to, treat the novation of the Shipbuilding Liabilities and the Retained Liabilities pursuant to Section 2.4 and 2.5 of the Separation and Distribution Agreement, respectively as (a) a distribution by HII to New NGC immediately prior to the Distribution or (b) a contribution by New NGC to HII immediately prior to the Distribution.
Section 7.4 Accounting Methods.

(a) No HII Group Member shall take any action with the IRS (whether by making an Adjustment Request, filing a request for a change in Accounting Method, or otherwise) that would adversely affect the application of any Accounting Method for any HII Group Member for any Pre-Distribution Taxable Period, unless such action is required by the IRS in a Final Determination.

(b) Each HII Group Member shall continue the use of any Accounting Method in effect immediately prior to the Distribution Date for such Member (including the Accounting Methods described in the IRS ruling letter dated February 26, 2010 relating to CVN 78), unless such Member either (i) is required by the IRS to change such Accounting Method in a Post-Distribution Taxable Period, or (ii) requests and receives consent from the IRS to change such Accounting Method in a Post-Distribution Taxable Period.

(c) Each HII Group Member shall continue the use of any Accounting Method agreed to by NGC or New NGC and the IRS for such HII Group Member as a result of any Final Determination with respect to Current Tax Group Federal Consolidated Returns for a Pre-Distribution Taxable Period or a Straddle Taxable Period, unless such HII Group Member Group receives consent from, or is required by, the IRS to change such Accounting Method in a Post-Distribution Taxable Period; provided, however, that if such consent reasonably would be expected to have material adverse impact on New NGC (including through an increase in Taxes or a reduction of a Tax Attribute, regardless of whether or when such Tax Attribute otherwise would have been used), the HII Tax Group (or such Member) shall not seek such consent.

(d) Each HII Group Member that was granted permission by IRS to implement a change in Accounting Method prior to the Distribution Date (including changes pursuant to IRS automatic consent procedures) shall comply with all terms of the Accounting Method change consent agreement or the terms imposed by the automatic consent procedure, including (i) the accounting method change request relating to long-term contract accounting methods filed on behalf Northrop Grumman Shipbuilding, Inc. on December 22, 2009 and for which consent was granted by the IRS in a ruling letter dated July 19, 2010, and (ii) the automatic accounting method change, relating to contracts with the Navy pursuant to Section 2203 of the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, Pub. L. No. 109-234, filed on behalf of Northrop Grumman Shipbuilding, Inc. on January 27, 2010.

(e) The Parties acknowledge and agree that any “long-term contract” (within the meaning of Section 460(f) of the Code) being performed by any HII Group Member on the Distribution Date is subject to Treasury Regulations Section 1.460-4(k)(3), relating to step-in-the-shoes transactions.

(f) The Parties acknowledge and agree that any interest any HII Group Member owes to IRS, or is owed by IRS, in a Post-Distribution Taxable Period under the look-back rules of Section 460(b)(2), (i) is payable by, or shall be payable to, respectively, such HII Group Member, and (ii) shall not result in any payment obligation by any Party under ARTICLE 6,
(g) The Parties acknowledge and agree that any adjustment to taxable income of any HII Group Member in a Post-Distribution Taxable Period resulting from an adjustment under Section 481 of the Code relating to an Accounting Method change effective as of a date prior to the Distribution Date shall not result in any payment obligation by any Party under ARTICLE 6, notwithstanding the fact that the adjustment period may have commenced in a Pre-Distribution Taxable Period or Straddle Taxable Period.

(h) The Parties acknowledge and agree that any adjustment to taxable income of any HII Group Member in a Post-Distribution Taxable Period resulting from an adjustment under Section 481 of the Code relating to an Accounting Method change effective as of a date subsequent to the Distribution Date shall not result in any payment obligation by any Party under ARTICLE 6, notwithstanding the fact that the adjustment may take into account the taxable income reported on an Accounting Method in a Pre-Distribution Taxable Period or a Straddle Taxable Period.

(i) The Parties acknowledge and agree that any increase in the tax liability of any HII Group Member in a Post-Distribution Taxable Period resulting from the recapture of any tax benefit under Section 708(b) of the American Jobs Creation Act of 2004, Pub. L. No. 108—357 shall not result in any payment obligation by New NGC under Section 6.2, notwithstanding the fact that such recapture may relate to taxable income of qualified naval ship contracts that would have been recognized by such Member during a Pre-Distribution Taxable Period but for the application of Section 708(a) thereof.

Section 7.5 Indemnification for Taking Contrary Tax Treatment

(a) If either New NGC or HII or any of its Subsidiaries fails to comply with any covenant, agreement, or undertaking in this ARTICLE 7, such Party shall indemnify and hold harmless the other Party and each of its Subsidiaries from and against any (i) increase in Taxes resulting from a Final Determination that the treatment of a Income Tax Item differs from the treatment of such Income Tax Item described in this ARTICLE 7 and (ii) legal, accounting, or other fees and expenses incurred in connection with a Tax Proceeding relating to the treatment of such Income Tax Item.

(b) A Party’s obligation under this ARTICLE 7 to treat a receipt, payment or item of income, gain, loss, deduction or credit in a prescribed manner (including timing) shall be satisfied if such Party files all relevant Tax Returns and Adjustment Requests in a manner consistent with such prescribed treatment.

(c) For the purposes of this Section 7.5, any increase in Taxes shall be determined in accordance with the methodology set forth in Section 6.1(b) and Section 6.1(d), on the one hand, or Section 6.2(b) and Section 6.2(d), on the other; provided, however, that the limitations under Section 6.1(c), Section 6.2(c), and Section 6.3 shall not apply to the indemnities under this Section 7.5, it being the intention of the parties that any indemnity under this Section 7.5 shall be determined without any minimum amount and without regard to the presence or absence of any

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possible future Tax benefit or Tax detriment to any member of the HII Group or any member of the New NGC Group.

(d) Any obligations of a Party pursuant to this Section 7.5 shall be separate from and shall not affect the obligations of any Party to another Party pursuant to Section 6.1, Section 6.2, Section 8.4(b), or Section 10.4.

Section 7.6 Tax Attributes.

(a) New NGC shall cooperate with HII, each at its own cost and expense, in determining the allocation of Tax Attributes between the Current Tax Group and the HII Tax Group arising in Pre-Distribution Taxable Periods or Straddle Taxable Periods in accordance with the Code and Treasury Regulations (and any applicable state, local, and foreign Laws). New NGC and HII hereby agree to compute all Taxes for Post-Distribution Taxable Periods and Straddle Taxable Periods consistently with that determination unless otherwise required by a Final Determination.

(b) To the extent that the amount of any Tax Attribute is later reduced or increased by a Tax Authority, Tax Proceeding, or carrybacks of Tax Attributes from Post-Distribution Taxable Periods of either the Current Tax Group or the HII Group, such reduction or increase shall be allocated to the Party to which such Tax Attribute was allocated pursuant to Section 7.6(a).

ARTICLE 8
TAX-FREE STATUS OF THE TRANSACTIONS

Section 8.1 Covenants, Undertakings, Agreements, Representations, and Warranties.

(a) HII Covenants, Undertakings, Agreements, Representations, and Warranties.

(i) HII represents and warrants as follows:

(A) All the facts presented and representations made in the Tax Materials (singly and in combination), to the extent descriptive of the HII Group, any HII Group Member, or the actions or intentions of any of them, at all times have been, and as of the date of this Agreement are, true, correct, fairly presented and complete in all respects and are not misleading in any respect.

(B) No HII Group Member is aware of any respect in which any fact presented or representation made in the Tax Materials (singly or in combination) is misleading in any respect or is other than true, correct, fairly presented and complete in all respects.

(ii) HII covenants, undertakes and agrees as follows:

(A) Each HII Group Member shall use its best efforts to ensure that the facts presented and representations made in the Tax Materials (singly and in
(B) If an HII Group Member becomes aware that any fact presented or representation made in the Tax Materials (singly or in combination) is, may be, or may become misleading or other than true, correct, fairly presented and complete in all respects, HII shall promptly notify the appropriate management personnel of NGC (before the Distribution Date) or New NGC (after the Distribution Date) of the situation in writing, and shall use its best efforts and fully cooperate in any efforts by NGC and/or New NGC to correct the situation, all at its own expense.

(C) No HII Group Member will take a position on a Tax Return (including on Schedule UTP or any similar schedule or form) that could be reasonably likely to be inconsistent in any respect with the rulings set forth in the IRS Ruling, the rights and obligations set forth in the IRS Closing Agreement, the conclusions set forth in the Opinion, or the Tax-Free Status of the Transactions.

(b) New NGC Covenants, Undertakings, Agreements, Representations, and Warranties.

(i) New NGC represents and warrants as follows:

(A) It has delivered complete and accurate copies of the Tax Materials to HII.

(B) All the facts presented and representations made in the Tax Materials (singly and in combination) at all times have been, and are as of the date of this Agreement, true, correct, fairly presented and complete in all respects, and are not misleading in any respect.

(C) No New NGC Group Member is aware of any respect in which any fact presented or representation made in the Tax Materials (singly or in combination) is misleading in any respect or is other than true, correct, fairly presented and complete in all respects.

(ii) New NGC covenants, undertakes and agrees as follows:

(A) Each New NGC Group Member shall use its best efforts to ensure that the facts presented and representations made in the Tax Materials (singly and in combination) will be true, correct, fairly presented and complete in all respects, and will not be misleading in any respect, through and including the Distribution, and thereafter as relevant.

(B) If a New NGC Group Member becomes aware that any fact presented or representation made in the Tax Materials (singly or in combination) is, may be, or may become misleading in any respect or other than true, correct, fairly presented and complete in all respects, New NGC shall promptly inform the
appropriate management personnel of HII of the situation in writing, shall use its best efforts, and shall fully cooperate in any efforts by HII, to correct the situation, all at its own cost and expense.

(C) No New NGC Group Member will take a position on a Tax Return (including on Schedule UTP or any similar schedule or form) that could be reasonably likely to be inconsistent in any respect with the rulings set forth in the IRS Ruling, the rights and obligations set forth in the IRS Closing Agreement, the conclusions set forth in the Opinion, or the Tax-Free Status of the Transactions.

(c) **No Contrary Knowledge.** Each of New NGC and HII represents and warrants that it knows of no fact (after due inquiry) that could be reasonably likely to cause the Tax treatment of the Transactions to be other than the Tax-Free Status of the Transactions.

(d) **No Contrary Plan.** Each of New NGC and HII represents and warrants that neither it nor any of its Affiliates has any plan or intent to take any action that could be reasonably likely to be inconsistent with any statement or representation in the Tax Materials.

Section 8.2 Restrictions Relating to the Distribution.

(a) **General.** Neither New NGC nor HII shall take, or permit any New NGC Group Member or HII Group Member to take, any action that could be reasonably likely to be inconsistent with any of the Tax Materials or to jeopardize all or any part of the Tax-Free Status of the Transactions.

(b) **IRS Closing Agreement.** Neither New NGC nor HII shall take, or permit any New NGC Group Member or HII Group Member to take, any action that could be reasonably likely to be inconsistent with any provision of the IRS Closing Agreement.

(c) **HII Restricted Actions.** HII shall not take, and shall not permit any HII Group Member to take, any action described in paragraphs (i) through (vi) (each a "HII Restricted Action") prior to the first day following the second anniversary of the Distribution (the "Restriction Period").

(i) **No Liquidation or Dissolution.** HII shall not take, and shall not permit any HII Group Member to take, any action that reasonably could be expected to result in a dissolution or liquidation (including any action that is a liquidation for federal Income Tax purposes, whether or not as part of a reorganization within the meaning of Section 368(a) of the Code) of any HII Group Member, except NGC, or a merger in which any HII Group Member, except NGC, is a party but not the surviving corporation.

(ii) **Continuation of Shipbuilding Business.** HII shall not, and shall not permit any HII Group Member to, take any action that could be reasonably likely to be inconsistent with the continuation of the Shipbuilding Business as described in the Tax Materials; provided, however, that the winding down or cessation of the HII Group’s shipbuilding facilities in Avondale, Louisiana shall not be considered inconsistent with the continuation of the Shipbuilding Business.
(iii) Dispositions of Assets. HII shall not, and shall not permit any HII Group Member to, sell, transfer, or otherwise dispose of or agree to, sell, transfer or otherwise dispose (including in any transaction treated for federal Income Tax purposes as a sale, exchange, transfer or disposition) of assets (including shares of stock of any HII Group Member) in one or more transactions that, in the aggregate, could be reasonably likely to constitute more than 30 percent of the consolidated gross assets of the HII Group. The percentage of the consolidated gross assets of the HII Group sold, transferred or otherwise disposed of shall be based on the fair market value of all relevant assets as of the Distribution Date, or, if fair market value of any asset or group of assets is not readily determinable, based on the net book value of such asset or group of assets under Generally Accepted Accounting Principles, as of such date. The restrictions in this paragraph shall not apply to (A) sales, transfers, or dispositions of assets for cash or cash equivalents in the ordinary course of normal day-to-day operations of the Shipbuilding Business, (B) acquisitions of assets from unrelated Persons in arm’s-length transactions, (C) transfers of assets to Persons that are disregarded as entities separate from the transferors for federal Income Tax purposes, (D) mandatory or optional payments (including pre-payments) of interest or principal with respect to indebtedness of an HII Group Member, (E) redemptions or repurchases of HII stock or rights to acquire stock for cash or cash equivalents within the restrictions set forth in Section 8.2(c)(iv), (F) normal quarterly dividends, or (G) sales of assets in connection with the winding down and cessation of the HII Group’s shipbuilding facilities in Avondale, Louisiana.

(iv) Redemptions and Other Acquisitions of HII Stock. HII shall not redeem or otherwise acquire (directly or through an Affiliate) any HII stock or rights to acquire stock of HII, except to the extent that such acquisitions (separately and together with any other such acquisitions) are within the limitations described in the IRS Ruling; provided, however, that an acquisition of a right to acquire stock in a transaction subject to Safe Harbor VIII of Treasury Regulations Section 1.355-7(d) shall not constitute an HII Restricted Action.

(v) Transactions Implicating Section 355(e) of the Code.

(A) HII shall not enter into a transaction described in Section 8.2(c)(v)(B) (and, to the extent any HII Group Member has the right or authority to prevent any such transaction, shall not permit any such transaction to occur), if in the aggregate such transactions could be reasonably likely to cause or permit one or more Persons (whether or not acting in concert) to acquire, directly or indirectly, a number of shares of HII stock that would, when combined with any other changes in ownership of HII stock, comprise 40 percent or more of either (I) the value of all outstanding shares of stock of HII as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series, or (II) the total combined voting power of all outstanding shares of voting stock of HII as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series. For purposes of this Section 8.2(c)(v), a reference to an acquisition of stock and any similar term or variation thereof includes an agreement, understanding or arrangement or substantial negotiations, within the meaning of Treasury
Regulations Section 1.355-7 regarding any such transaction or series of transactions or any similar transaction or series of transactions.

(B) Subject to Section 8.2(c)(v)(C) and Section 8.2(c)(v)(D), a transaction described in this Section 8.2(c)(v)(B) includes a transaction or part of a series of transactions as a result of which (I) HII or any HII Group Member would merge or consolidate with any other Person (except a merger or consolidation of two HII Group Members), or (II) one or more Persons would (directly or indirectly) acquire, or have the right to acquire, shares of HII stock from HII and/or one or more holders of outstanding shares of HII stock. Such a transaction constitutes an HII Restricted Action regardless of whether it is supported by HII’s board of directors, management or shareholders, is a hostile acquisition, or otherwise.

(C) For purposes of Section 8.2(c)(v)(B), (I) a recapitalization, amendment to a certificate of incorporation (or other organizational documents), or any other action, whether through a stockholder vote or otherwise, affecting the relative voting rights of stock (including through conversion of any stock into another class of stock) shall be treated as an acquisition of stock, and (II) a redemption of stock (directly or, as appropriate, indirectly through Affiliates) shall be treated as an indirect acquisition of stock by the non-redeeming shareholders.

(D) A transaction described in Section 8.2(c)(v)(B) shall not include (I) an adoption by HII of a shareholder rights or “poison pill” plan (of the type described in Revenue Ruling 90-11), (II) an acquisition of HII stock that satisfies Safe Harbor VII of Treasury Regulations Section 1.355-7(d) or (III) an issuance of stock or a grant of an option to acquire stock by HII that satisfies Safe Harbor VIII or Safe Harbor IX of such regulation.

(vi) Section 355(a)(1)(B) of the Code. HII shall not take any action or actions and, to the extent any HII Group Member has the right or authority to prevent such action, shall not permit any action (in either case, whether or not inconsistent with any of the Tax Materials), if, in the aggregate, such actions could be reasonably likely to cause or permit one or more Persons (whether or not acting in concert) to dispose, directly or indirectly, of a number of shares of HII stock that, when combined with any other changes in ownership of HII stock pertinent for purposes of Section 355(a)(1)(B) of the Code, could be reasonably likely to comprise 20 percent or more of the value of all of the outstanding shares of stock of HII as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series.

(d) Permitted Actions. Notwithstanding Section 8.2(c), during the Restriction Period HII may take an HII Restricted Action, if the conditions set forth in Section 8.2(d)(i), Section 8.2(d)(ii), or Section 8.2(d)(iii) are satisfied. For purposes of such provisions, in determining whether a ruling or opinion is satisfactory, New NGC may consider, among other factors, the appropriateness of any underlying assumptions or representations used as a basis for the ruling or
opinion and the views of New NGC’s outside tax advisors on the substantive merits of the matters addressed in such ruling or opinion.

(i) The conditions set forth in this Section 8.2(d)(i) shall be satisfied if HII shall have requested New NGC to obtain a supplemental ruling in accordance with Section 8.3 to the effect that such action or transaction will not affect the Tax-Free Status of the Transactions, and New NGC shall have received such a supplemental ruling in form and substance satisfactory to New NGC.

(ii) The conditions set forth in this Section 8.2(d)(ii) shall be satisfied if HII shall have provided to New NGC an Unqualified Tax Opinion in form and substance satisfactory to New NGC.

(iii) Solely with respect to the Restricted Actions described in Section 8.2(c)(i), the conditions of this Section 8.2(d)(iii) shall be satisfied if HII notifies New NGC in writing of the proposed dissolution, liquidation, or merger involving the relevant HII Group Member, and New NGC consents, in writing, to such dissolution, liquidation, or merger, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that this Section 8.2(d)(iii) shall not apply to a dissolution or liquidation of HII or to a merger to which HII is a party.

(e) Restrictions Relating to NGC. HII shall not, and shall not permit any HII Group Member to, (i) sell, convey, assign or otherwise transfer any shares of capital stock of NGC, (ii) transfer any asset to NGC, or (iii) take any action that could be reasonably likely to cause NGC to engage in any business activity or otherwise to be inconsistent with the liquidation of NGC in the Transactions for federal Income Tax purposes; provided, however, that nothing in this Section 8.2(e) shall prevent HII or NGC from taking any action pursuant to ARTICLE 10 of this Agreement or from approving the amendment to NGC’s Certificate of Incorporation as contemplated by Section 8.2 of the Separation and Distribution Agreement.

Section 8.3 Procedures Regarding Rulings and Opinions.

(a) If HII notifies New NGC that it desires to undertake, or to cause an HII Group Member to undertake, an HII Restricted Action, New NGC shall cooperate with HII and use its reasonable best efforts to seek to obtain, as expeditiously as possible, at New NGC’s election, either a supplemental ruling from the IRS or an Unqualified Tax Opinion for the purpose of permitting HII to take such Restricted Action. HII shall bear its own costs and expenses and shall reimburse New NGC for all reasonable costs and expenses incurred by the Current Tax Group in attempting to obtain a supplemental ruling or an Unqualified Tax Opinion requested by HII.

(b) Notwithstanding Section 8.3(a), New NGC shall have no obligation (i) to request a supplemental or other ruling if, upon consultation with appropriate IRS personnel, New NGC reasonably determines that IRS likely would not issue such ruling or (ii) to take any action to obtain a supplemental or other ruling or an Unqualified Tax Opinion with respect to any HII Restricted Action, if New NGC reasonably determines that such HII Restricted Action or the
process to attempt to obtain such ruling or opinion reasonably could be expected to have a significant adverse effect on any New NGC Group Member.

(c) Except in accordance with Section 8.3(a), no HII Group Member shall contact or seek any guidance from the IRS or any other Tax Authority (whether written, verbal or otherwise) at any time concerning the Transactions (including guidance as to the impact of any other transaction on the Transactions).

(d) New NGC shall have the right to obtain a ruling, determination or other guidance from any Tax Authority (including a supplemental IRS Ruling) or an opinion, including an Unqualified Tax Opinion, in its sole and absolute discretion and at any time. If New NGC decides to obtain such guidance or opinion, HII shall, and shall cause the HII Group Members to, cooperate with New NGC and take any and all actions reasonably requested by New NGC in connection with obtaining such guidance or opinion. Such cooperation shall include the making of any reasonable representation, warranty, undertaking or covenant, or the providing of any materials requested by the Tax Authority or the law firm issuing such opinion; provided, that HII shall not be required to make (or cause an Affiliate to make) any representation, warranty, undertaking or covenant that is inconsistent with historical facts or as to future matters or events over which it has no control. In connection with obtaining a ruling or determination from a Tax Authority, New NGC shall apply for such ruling or determination and shall have sole and exclusive control over the process of obtaining such ruling or determination, including the right to modify or withdraw such request at any time. New NGC and HII each shall bear its own costs and expenses in obtaining a ruling, determination or Tax Opinion requested by New NGC; provided, however, that, if HII incurs reasonable legal or accounting fees in excess of $50,000, with prior consent of New NGC (which shall not be unreasonably withheld, conditioned or delayed), in connection with a request by New NGC for guidance or an opinion subject to this Section 8.1(d), and if such guidance or opinion does not relate to an HII Restricted Action, New NGC shall reimburse HII for such excess amount.

Section 8.4 Indemnification

(a) Indemnification by HII. HII shall indemnify and hold each New NGC Group Member harmless from and against any loss, cost or expense (including Transactions Taxes and legal, accounting and other fees and other expenses incurred in connection with any Tax Proceeding) resulting from (1) a failure by any HII Group Member to comply with any covenant, agreement, undertaking, representation or warranty made by HII in Section 8.1 or Section 8.2; or (2) the taking of any HII Restricted Action during the Restriction Period (whether or not HII shall have received a ruling or Unqualified Tax Opinion pursuant to Section 8.2(d) and Section 8.3).

(b) Indemnification by New NGC. New NGC shall indemnify and hold each HII Group Member harmless from and against any loss, cost or expense (including Transactions Taxes and legal, accounting and other fees and other expenses incurred in connection with any Tax Proceeding) resulting from a failure by any New NGC Group Member to comply with any covenant, agreement, undertaking, representation or warranty made by New NGC in Section 8.1 or Section 8.2.
(c) Interaction with ARTICLE 6. Transaction Taxes shall be determined without reference to the methodology or limitations set forth in ARTICLE 6.

(d) Interaction with Other Indemnities. Any obligations of a Party pursuant to this Section 8.4 shall be separate from and shall not affect the obligations of any Party to another Party pursuant to Section 6.1, Section 6.2, Section 7.5, or Section 10.4.

ARTICLE 9
COOPERATION

Section 9.1 General Cooperation.

Each of the Parties shall cooperate fully (and each shall cause its respective Subsidiaries to cooperate fully) with all reasonable requests in writing from another Party, or from a representative or advisor to such Party, in connection with the preparation and filing of Tax Returns, Adjustment Requests, claims for Refund, Tax Proceedings and calculations of amounts required to be paid pursuant to this Agreement, in each case, related or attributable to or arising in connection with Taxes of any of the Parties or their respective Subsidiaries covered by this Agreement and the establishment of any reserve required in connection with any financial reporting. The Parties shall continue to cooperate with one another with respect to such matters without regard to the time limitation set forth in Section 7.7(d) of the Separation and Distribution Agreement. Except as provided in Section 7.3 of the Separation and Distribution Agreement, each Party shall make its employees, advisors and facilities available, without charge, on a reasonable and mutually convenient basis in connection with the foregoing matters, and the cooperation required by this Section 9.1 shall include the providing of any information reasonably necessary or helpful in connection with such matters and shall include, without limitation, at such Party’s own cost and expense:

(a) the providing of Tax Returns of the Parties and their respective Subsidiaries, books, records (including information regarding ownership and Tax basis of property), documentation and other information relating to such Tax Returns, including accompanying schedules, related work papers, and documents relating to rulings or other determinations by Tax Authorities;

(b) the execution of documents (including powers of attorney) in connection with any Tax Proceedings of any of the Parties or their respective Subsidiaries, or the filing of Tax Returns or a Refund claims of the Parties or their respective Subsidiaries;

(c) the use of the Party’s reasonable best efforts to obtain any documentation in connection with a Tax Matter; and

(d) the use of the Party’s reasonable best efforts to obtain any Tax Returns (including accompanying schedules, related work papers, and documents), documents, books, records or other information in connection with the filing of any Tax Returns of any of the Parties or their Subsidiaries.
Section 9.2 Retention of Records

In addition to complying with their respective obligations as set forth in Article VII of the Separation and Distribution Agreement, (a) each of the Parties shall retain or cause to be retained all Tax Returns, schedules and workpapers, and all material records or other documents relating thereto in their possession, until sixty (60) days after the expiration of the applicable statute of limitations (including any waivers or extensions thereof) of the Taxable Periods to which such Tax Returns and other documents relate or until the expiration of any additional period that any Party reasonably requests, in writing, with respect to specific material records or documents; (b) a Party intending to destroy any material records or documents shall provide the other Parties with reasonable advance notice and the opportunity to copy or take possession of such records and documents; and (c) each of the Parties shall notify the other Parties in writing of any waivers or extensions of the applicable statute of limitations that may affect the Taxable Period for which the foregoing records or other documents must be retained.

Section 9.3 Confidentiality

Section 7.8 and Section 7.9 of the Separation and Distribution Agreement shall apply to all Information provided by the Parties to one another pursuant to this Agreement. Provided, however, that, if a Party receiving such Information reasonably determines that any such Information will be helpful in the resolution of a Tax Proceeding if disclosed to a Tax Authority, then, upon request of such Party, the Party providing such Information shall promptly permit such disclosure unless such Party reasonably determines that such disclosure is likely to have a significant adverse effect on such Party or any of its Affiliates.

ARTICLE 10
NGC AS CURRENT TAX GROUP AGENT

Section 10.1 Purpose

The purpose of this ARTICLE 10 is to ensure that matters relating to the Current Tax Group’s U.S. federal Income Taxes and other Taxes for Pre-Distribution Taxable Periods with respect to which NGC is, and after the Distribution will remain, the Current Tax Group Agent are managed and administered, and Tax Proceedings with respect to such Tax matters are conducted, in an efficient and orderly manner and in the interest of the New NGC Group, notwithstanding the fact that NGC will be a Subsidiary of HII after the Distribution but will continue to be the Current Tax Group Agent for the Current Tax Group’s U.S. federal Income Taxes and certain other Taxes for Pre-Distribution Taxable Periods. It is the Parties’ intent that no Party shall obtain any advantage or sustain any disadvantage vis-à-vis any other Party as a result of NGC, instead of a New NGC Group Member, being the Current Tax Group Agent.

Section 10.2 NGC Tax Officer

(a) NGC shall appoint and retain as the NGC Tax Officer the individual designated by New NGC from time to time. It is expected but not required that New NGC shall designate its Vice President — Tax as the NGC Tax Officer. HII shall cause the NGC Tax Officer to be appointed as Vice President — Tax of NGC.
(b) The NGC Tax Officer shall have sole authority and responsibility to manage, administer, make decisions for and bind NGC with respect to all matters within the scope of NGC’s authority and responsibility as Current Tax Group Agent. Such matters shall include the matters listed in the Agency Regulations as subject to agency and all similar matters, including the following:

(i) Preparation, signing and filing of Tax Returns for NGC as the Current Tax Group Agent,

(ii) Making payments to Tax Authorities on behalf of NGC as the Current Tax Group Agent,

(iii) Conducting Tax Proceedings and agreeing to settlements thereof on behalf of NGC as the Current Tax Group Agent,

(iv) Obtaining the services of other officers and employees of New NGC Group Members on behalf of NGC as the Current Tax Group Agent, and

(v) Retaining and granting powers of attorney to professional advisers, representatives, experts and other individuals or professional service firms on behalf of NGC as the Current Tax Group Agent.

(c) The authority, responsibility and duties of the NGC Tax Officer shall be limited to matters described in Section 10.2(b). The NGC Tax Officer shall have no authority with respect to Tax matters of the HII Tax Group or any member of the HII Group other than NGC. With respect to NGC, the authority, responsibility and duties of the NGC Tax Officer shall be limited to matters relating to Tax Returns and Taxable Periods as to which NGC is the Current Tax Group Agent.

(d) HII shall, and shall cause the other HII Group Members (including NGC) to, cooperate with the NGC Tax Officer in the performance of his or her responsibilities as described in Section 10.2(b). Upon request of the NGC Tax Officer, the board of directors and the officers of NGC shall promptly take any action and execute any documents as reasonably requested by the NGC Tax Officer for the purpose of conducting or settling a Tax Proceeding within the scope of this ARTICLE 10 (including documents in connection with settlement of a Tax Proceeding, even if HII may demand arbitration under Section 5.1(a) (v) with respect to such settlement).

(e) The NGC Tax Officer shall act in the interest of the New NGC Group regarding all Tax matters, even if any such action is or may be contrary to the interest of the HII Group or its Members, under this Agreement or otherwise. Each of the HII Group Members hereby waives any conflict of interest that may arise from the activities and responsibilities of the NGC Tax Officer, and HII and NGC each has executed a letter to such effect in the form attached as Exhibit A. Upon request of New NGC, HII shall execute, or cause any HII Group Member (including NGC) to execute, a letter to similar effect in form or substance requested by a Tax Authority.
(f) New NGC shall employ and be solely responsible for paying the costs and expenses incurred in connection with the employment of the NGC Tax Officer and his or her activities, including cost of compensation paid and benefits accorded to the Tax Officer, liability insurance coverage and all costs associated with the use of services provided by other officers or employees of New NGC and other Current Group Members and by outside advisers, representatives or experts.

Section 10.3 Payments of Tax and Receipt of Refunds.

(a) In accordance with Section 2.1 and Section 2.2, New NGC shall pay all Tax liabilities incurred by NGC as Current Tax Group Agent (including any liability for Tax attributable to the activities of NGC during a Pre-Distribution Taxable Period).

(b) In accordance with Section 4.1(a) and Section 4.2, promptly upon receipt by NGC of a Refund from a Tax Authority relating to a Tax Return for which NGC is the Current Tax Group Agent, NGC shall (and HII shall cause NGC to) remit the full amount of such Refund to New NGC.

Section 10.4 Indemnification.

(a) HII shall indemnify and hold harmless all New NGC Group Members from and against any loss, cost or expense (including Taxes and professional fees) resulting from a breach by NGC or any other HII Group Member of an obligation under this ARTICLE 10.

(b) New NGC shall indemnify and hold harmless all HII Group Members from and against any loss, cost or expense (including Taxes and professional fees) resulting from—

(i) any breach (including a delay in taking any action) by New NGC or any other New NGC Group Member of an obligation under this ARTICLE 10, and

(ii) any act or omission (including a delay in taking an action) by the NGC Tax Officer (or by any person acting under direction of the NGC Tax Officer), arising out of or related to this ARTICLE 10; provided, however, that this Section 10.4(b)(ii) shall have no effect on any indemnity or payment obligation under ARTICLE 3, ARTICLE 4, ARTICLE 6, ARTICLE 7, or ARTICLE 8.

(c) No act or omission (including a delay in taking an action) by the NGC Tax Officer within the scope of his or her authority and responsibility, under Section 10.2, shall result in any indemnity under Section 10.4(b) due to such act or omission being contrary to the interest of the HII Group or its Members, under this Agreement or otherwise.

(d) Except as otherwise provided in ARTICLE 3, ARTICLE 4, ARTICLE 6, ARTICLE 7, and ARTICLE 8, New NGC shall indemnify and hold harmless all HII Group Members from and against any Taxes for which NGC is or becomes liable with respect to any Pre-Distribution Taxable Period and any Straddle Taxable Period (and from and against any costs or expenses, including professional fees, attributable to the determination of any such liability for Taxes).
(e) Any indemnity obligation under this ARTICLE 10 shall be separate from and in addition to the indemnities and other payment obligations between the Parties under ARTICLE 3, ARTICLE 4, ARTICLE 6, ARTICLE 7, and ARTICLE 8. None of the limitations or methodologies for computing any such obligations in any of such Articles shall apply to the indemnities under this ARTICLE 10.

**Section 10.5 Designation of Substitute Current Tax Group Agent.**

(a) NGC hereby designates Northrop Grumman Systems Corporation, a Delaware corporation, as successor Current Tax Group Agent in the form attached hereto as Exhibit B of even date herewith. Such designation shall become effective immediately upon the termination of NGC’s corporate existence (or, if sooner, upon the relevant Tax Authority’s consenting to or requiring such designation). Within a reasonable time after the Distribution, the NGC Tax Officer shall execute a designation in a form substantially identical to the form in Exhibit B and shall file such designation with the IRS. If the IRS does not accept such filing at such time, the NGC Tax Officer shall use his or her reasonable best efforts to file such designation at the earliest opportunity. The NGC Tax Officer shall provide HII with a copy of the designation and any related correspondence with the IRS.

(b) Upon request of New NGC, HII shall cause NGC or any other HII Group Member to execute any additional document or documents to effect or facilitate the designation of a substitute Current Tax Group Agent selected by New NGC prior to the termination of NGC’s corporate existence. The NGC Tax Officer shall be responsible for filing any such document with the IRS in a manner consistent with Section 10.5(a).

(c) HII agrees to cause the termination of NGC’s corporate existence, within the meaning of Treasury Regulations Section 1.1502-77(e), so as to facilitate the designation pursuant to Section 10.5(a), as soon as such termination can be accomplished with no significant adverse effect with respect to any contract between any HII Group Member and the United States Navy, and so long as the IRS accepts a substitute designee. HII agrees to keep New NGC informed of the status of these matters.

**ARTICLE 11**

**MISCELLANEOUS**

**Section 11.1 Timing of Payments; Interest.**

Amounts payable pursuant to this Agreement shall be paid within 30 days of the written demand by the Party entitled to receive such payments. Such demand shall include documentation setting forth the basis for the amount payable. Any payment not made within 30 days of the written demand for such payment shall accrue interest at a rate per annum equal to the rate in effect for underpayments pursuant to Section 6621(a)(2) of the Code (without taking into account increased rates under Section 6621(c)) from such date, compounded annually.

**Section 11.2 Dispute Resolution.**

(a) **Negotiations.** New NGC and HII each shall endeavor, and shall cause their respective Affiliates to endeavor, to resolve any Tax Matters Dispute in an amicable manner.
through negotiations in good faith for not less than 21 days involving senior executives of the Parties who have authority to resolve the matter.

(b) Appointment of Tax Arbitrator by the Parties. Upon written notice by New NGC to HII, or by HII to New NGC, after 21-day period provided in Section 11.2(a), such Parties shall jointly select, retain and appoint one individual to resolve the Tax Matters Dispute (the “Tax Arbitrator”). The Tax Arbitrator shall be a nationally-recognized tax attorney and shall be either a current or retired member of an Independent Firm or a former or retired judge or government official. In choosing a Tax Arbitrator, such Parties may consider, among other matters, the professional expertise of each prospective Tax Arbitrator, such individual’s independence from the Parties, the cost of retaining such individual and the availability of such individual to perform the services of Tax Arbitrator on a timely basis. Neither of such Parties will unreasonably withhold or delay giving consent to the appointment of any qualified individual as Tax Arbitrator.

(c) Appointment of Tax Arbitrator by Individuals Selected by the Parties. If, having determined that the Tax Matters Dispute must be referred to a Tax Arbitrator, the Parties cannot, after 21 days, retain a Tax Arbitrator who is acceptable to the Parties in good faith, then, upon written notice by New NGC to HII, or by HII to New NGC, each such Party shall, within seven days thereafter, designate and retain at its own expense an individual who shall have the qualifications described in Section 11.2(b). Such individuals shall agree upon and appoint as the Tax Arbitrator an individual (not either of such individuals or any member of a firm of which either of such individuals is a member or a retired member) who shall have such qualifications and who shall have agreed to serve as Tax Arbitrator at a cost no greater than the normal and customary charges for tax services imposed by such individual (or the Independent Firm of which he or she is a member or a retired member). Such individuals shall use reasonable best efforts to select the Tax Arbitrator within 14 days of their being selected by the Parties and shall not consult with either of the Parties prior to agreeing upon and appointing the Tax Arbitrator. The appointment of the Tax Arbitrator by such individuals shall be final and binding on the Parties, except if they agree otherwise.

(d) Appointment of Tax Arbitrator by Tax Section Chair. If, having determined that the Tax Matters Dispute must be referred to a Tax Arbitrator, (i) the Parties cannot appoint a Tax Arbitrator pursuant to Section 11.2(b), and (ii) the individuals selected by the Parties pursuant to Section 11.2(c) are unwilling or unable to agree upon and appoint a Tax Arbitrator in a timely manner, then the Parties shall jointly request that the individual then serving as Chair of the New York State Bar Association Tax Section appoint the Tax Arbitrator. If such individual is unable or unwilling to appoint the Tax Arbitrator, then the Parties shall jointly request that the individual then serving as Chair of the American Bar Association Tax Section appoint the Tax Arbitrator. Each such individual, as the case may be, shall use reasonable best efforts to select the Tax Arbitrator within 14 days and shall not consult with either of the Parties prior to appointing the Tax Arbitrator. The appointment of the Tax Arbitrator by either such individual, as the case may be, shall be final and binding on the Parties, except if they agree otherwise.

(e) Proceedings Before Tax Arbitrator. The Tax Arbitrator shall decide all points relating to the Tax Matters Dispute. Except to the extent jointly determined by agreement of the Parties, the Tax Arbitrator shall conduct proceedings necessary to reach a decision, as he or she
reasonably determines, and may, in his or her reasonable discretion, obtain the services of any individual (including other members or employees of an Independent Firm of which the Tax Arbitrator is a current or retired member) to assist in deciding the Tax Matters Dispute. The Tax Arbitrator shall use his or her best efforts to resolve the dispute as quickly as is reasonably possible, and the Parties shall cooperate in efforts to do so. In the case of a dispute relating to NGC’s role as the Current Tax Group Agent, the powers of the NGC Tax Officer, or otherwise relating to any provision of ARTICLE 10, the Tax Arbitrator shall use his or her best efforts to resolve all matters within 60 days after his or her appointment. All fees and expenses of the Tax Arbitrator shall be shared equally by New NGC and HII.

(f) Tax Arbitrator’s Written Decision. As soon as practicable after proceedings are complete, the Tax Arbitrator shall furnish a written decision to the Parties. Such decision shall set forth the decision of the Tax Matters Dispute but shall not include any rationale therefor, discussion thereof or citations of legal authority, except to the extent necessary to make the terms of the decision clear to the Parties. The decision of the Tax Arbitrator shall be final and binding on the Parties, and the Parties shall take, or cause to be taken, any action necessary to implement the decision.

Section 11.3 Survival of Covenants.
Except as otherwise contemplated by this Agreement, all covenants and agreements of the Parties contained in this Agreement shall survive the Distribution and remain in full force and effect in accordance with their applicable terms, provided, however, that the representations and warranties and all indemnification for Taxes shall survive until 60 days following the expiration of the applicable limitations period (taking into account all extensions thereof), if any, for the Tax that gave rise to the indemnification, provided, further, that, in the event that notice for indemnification has been given within the applicable survival period, such indemnification shall survive until such time as such claim is finally resolved.

Section 11.4 Termination of Agreements, Arrangements and Policies.
Except for this Agreement and except as otherwise provided herein, all tax allocation agreements, arrangements or policies in effect between or among NGC Members shall be terminated effective as of the Distribution Date, and thereafter no party (or any of its directors or officers) shall have any liability or further obligation to any other party with respect to any such agreement, arrangement or policy.

Section 11.5 Severability.
If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced pursuant to any Law or as a matter of public policy, all other conditions and provisions of this Agreement shall remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties to this Agreement shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in a mutually acceptable manner.
Except as otherwise expressly provided in this Agreement, this Agreement constitutes the entire agreement of the Parties hereto with respect to the subject matter of this Agreement and supersedes all prior agreements and undertakings, both written and oral, between or on behalf of the Parties hereto with respect to the subject matter of this Agreement.

Section 11.7 Assignment.

This Agreement shall not be assigned by either New NGC or HII without the prior written consent of the other such Party hereto, except that New NGC and HII each may assign (i) any or all of its rights and obligations pursuant to this Agreement to another New NGC Group Member or HII Group Member, as the case may be, and (ii) any or all of its rights and obligations pursuant to this Agreement in connection with a sale or disposition of any assets or entities or lines of business; provided, however, that no such assignment shall release the assigning Party from any liability or obligation pursuant to this Agreement.

Section 11.8 No Third-Party Beneficiaries.

This Agreement is for the sole benefit of the Parties, their respective Subsidiaries and the permitted successors and assigns. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any legal or equitable right, benefit or remedy of any nature whatsoever pursuant to or by reason of this Agreement, provided, however, that the NGC Tax Officer shall be a third-party beneficiary with respect to his or her rights under ARTICLE 10.

Section 11.9 Specific Performance and Other Equitable Relief.

In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement, the Party who is or is to be thereby aggrieved shall have the right to specific performance and injunctive or other equitable relief of its rights pursuant to this Agreement (whether relating to a Tax Matters Dispute subject to arbitration under Section 11.2), in its sole discretion, in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative. The Parties agree that the remedies at law for any breach or threatened breach, including monetary damages, may be inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate, is waived. Any requirements for the securing or posting of any bond with such remedy are waived by the Parties to this Agreement.

Section 11.10 Waiver of Jury Trial.

EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.
Section 11.11 Governing Law.

This Agreement and all disputes or controversies arising out of or relating to this Agreement or the transactions contemplated hereby shall be governed by, and construed in accordance with, the internal Laws of the State of New York, without regard to the Laws of any other jurisdiction that might be applied because of the conflicts of laws principles of the State of New York (other than Section 5-1401 of the New York General Obligations Law).

Section 11.12 Amendment.

No provision of this Agreement may be amended or modified except by a written instrument signed by the Parties to this Agreement. No waiver by any Party of any provision of this Agreement shall be effective unless explicitly set forth in writing and executed by the Party so waiving. The waiver by any Party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other subsequent breach.

Section 11.13 Rules of Construction.

Interpretation of this Agreement shall be governed by the following rules of construction: (i) words in the singular shall be held to include the plural and vice versa; (ii) words of one gender shall be held to include the other gender as the context requires; (iii) references to the terms Article, Section, paragraph, or clause, are references to the Articles, Sections, paragraphs, or clauses of this Agreement unless otherwise specified; (iv) the terms “hereof,” “herein,” “hereby,” “hereto,” and derivative or similar words refer to this entire Agreement; (v) the word “including” and words of similar import shall mean “including without limitation,” unless otherwise specified; (vi) references to “written” or “in writing” include in electronic form; (vii) the table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement; (viii) a reference to any Person includes such Person’s successors and permitted assigns; (ix) a reference to a provision of the Code, Treasury Regulations or any other Law mean the provision, or the successor provision thereto, as in effect for the relevant period or periods; and (x) a reference to a Party’s taking an action shall include the Party’s failure to take an action having the same result as the action referred to.

Section 11.14 Notices.

All notices, notifications, requests, and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or if by facsimile, upon written confirmation of receipt by facsimile, e-mail or otherwise, (b) on the first Business Day following the date of dispatch if delivered utilizing a next-day service by a recognized next-day courier or (c) on the earlier of confirmed receipt or the fifth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All such notices, notifications, requests, and other communications shall be delivered to the addresses set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such communication:
(a) if to New NGC or to any other New NGC Group Member, before the date New NGC relocates its corporate headquarters, to:

Northrop Grumman Corporation
1840 Century Park East
Los Angeles CA 90067-2199
Attention: Vice President — Tax
Facsimile: (310) 556-4546

with a copy (which shall not constitute notice) to:

Northrop Grumman Corporation
1840 Century Park East
Los Angeles CA 90067-2199
Attention: General Counsel
Facsimile: (310) 556-4910

(b) if to New NGC or any other New NGC Group Member on or after the date New NGC relocates its corporate headquarters, to:

Northrop Grumman Corporation
2980 Fairview Park Drive
Falls Church VA 22042
Attention: Vice President — Tax
Facsimile: To be provided at relevant time

with a copy (which shall not constitute notice) to:

Northrop Grumman Corporation
2980 Fairview Park Drive
Falls Church VA 22042
Attention: General Counsel
Facsimile: (703) 875-1852

(c) if to HII or any HII Group Member (other than NGC), to:

Huntington Ingalls Industries, Inc.
4101 Washington Avenue
Newport News VA 23607
Attention: Chief Financial Officer
Facsimile: (757) 688-0350
with a copy (which shall not constitute notice) to:

Huntington Ingalls Industries, Inc.
4101 Washington Avenue
Newport News VA 23607
Attention: General Counsel
Facsimile: (757) 688-1408

(d) if by HII to NGC, before the date New NGC relocates its corporate headquarters, to:

Titan II Inc.
c/o Northrop Grumman Corporation
1840 Century Park East
Los Angeles CA 90067-2199
Attention: Vice President — Tax
Facsimile: (310) 556-4546

with a copy (which shall not constitute notice) to:

Northrop Grumman Corporation
1840 Century Park East
Los Angeles CA 90067-2199
Attention: General Counsel
Facsimile: (310) 556-4910

(e) if by HII to NGC, on or after the date New NGC relocates its corporate headquarters, to:

Titan II Inc.
c/o Northrop Grumman Corporation
2980 Fairview Park Drive
Falls Church VA 22042
Attention: Vice President — Tax
Facsimile: To be provided at relevant time

with a copy (which shall not constitute notice) to:

Northrop Grumman Corporation
2980 Fairview Park Drive
Falls Church VA 22042
Attention: General Counsel
Facsimile: (703) 875-1852
Section 11.15 Counterparts.

This Agreement may be executed in one or more counterparts each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or portable document format (PDF) shall be as effective as delivery of a manually executed counterpart of any such Agreement.

Section 11.16 Coordination with the Employee Matters Agreement.

To the extent any covenants or agreements between the Parties with respect to employment Taxes are set forth in the Employee Matters Agreement, such matters shall be governed exclusively by the Employee Matters Agreement and not by this Agreement.

Section 11.17 Conflict or Inconsistency Between Agreements.

In the event of any conflict or inconsistency between any provision of this Agreement and any provision of either the Separation and Distribution Agreement or any of the other Ancillary Agreements, the applicable provision of this Agreement shall prevail.

Section 11.18 Termination of this Agreement.

This Agreement may be terminated by NGC at any time prior to the effectiveness of the Holding Company Reorganization or by New NGC at any time at or after the effectiveness of the Holding Company Reorganization and prior to the Distribution. In the event of termination of this Agreement prior to the Distribution, no party (or any of its directors or officers) shall have any Liability or further obligation to any other party with respect to this Agreement.

[The remainder of this page is intentionally left blank.]
IN WITNESS WHEREOF, the Parties have caused this Tax Matters Agreement to be duly executed by their duly authorized representatives as of the day and year first above written.

NEW P, INC.
By: /s/ Mark Rabinowitz
   Name: Mark Rabinowitz
   Title: President & Treasurer

HUNTINGTON INGALLS INDUSTRIES, INC.
By: /s/ C. Michael Petters
   Name: C. Michael Petters
   Title: President and Chief Executive Officer

NORTHROP GRUMMAN CORPORATION
By: /s/ Mark Rabinowitz
   Name: Mark Rabinowitz
   Title: Corporate Vice President & Treasurer

[Signature Page to Tax Matters Agreement]
TRANSITION SERVICES AGREEMENT
among
NORTHROP GRUMMAN SYSTEMS CORPORATION,
NORTHROP GRUMMAN SHIPBUILDING, INC.,
NEW P, INC.
and
HUNTINGTON INGALLS INDUSTRIES, INC.
Dated as of March 29, 2011
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TRANSITION SERVICES AGREEMENT


RECITALS

A. The parties and Northrop Grumman Corporation, a Delaware corporation (“NGC”), have entered into the Separation and Distribution agreement (the “Separation Agreement”), dated as of the date hereof.

B. Pursuant to the Separation Agreement, the business of NGC will be separated into two publicly traded companies: (a) HII, which following the Separation (as defined in the Separation Agreement) will own and conduct, directly and indirectly, the Shipbuilding Business (as defined in the Separation Agreement), and (b) New NGC, which following the Separation will own and conduct, directly and indirectly, the Retained Business (as defined in the Separation Agreement).

C. NGSB desires to purchase certain services from NGSC during a transition period, for the benefit of NGSB’s operation of the Shipbuilding Business.

AGREEMENT

In consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Table of Definitions. The following terms have the meanings set forth on the pages referenced below:

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Section 1.2 Certain Defined Terms. For purposes of this Transition Services Agreement:

“NGSB” has the meaning set forth in the preamble, and shall include its Subsidiaries and successor(s) or, unless context otherwise requires, any of NGSB’s Affiliates (including HII) when that Affiliate receives the Services listed and described on Schedule A.

“NGSC” has the meaning set forth in the preamble or, unless context otherwise requires, any of NGSC’s Subsidiaries when that Subsidiary performs the Services listed and described on Schedule A.

“Service” or “Services” means those services described on Schedule A or otherwise provided by NGSC pursuant to Article II.

Section 1.3 Other Capitalized Terms. Capitalized terms not defined in this Transition Services Agreement shall have the meanings ascribed to them in the Separation Agreement.

ARTICLE II
SERVICES

Section 2.1 Provision of Services.

(a) NGSC shall provide or cause one of its Subsidiaries to provide to NGSB the services listed and as specified on Schedule A, attached hereto.

(b) For each Service, the parties have set forth on Schedule A, the time period during which the Service will be provided (if different from the Term), a description of the Service and certain related obligations, a dollar amount commensurate with the Services provided and certain other terms applicable thereto.

Section 2.2 Standard of Care; Means of Providing Services.

(a) Subject to the limitations set forth in this Article II or unless otherwise agreed by the parties, the Services shall be performed by NGSC for NGSB’s operation of the Shipbuilding Business at a level of service that is substantially the same as the level of service in which such Services were generally performed prior to the Distribution and NGSB shall use such Services for substantially the same purposes and in
(b) Subject to Section 2.2(a), NGSC shall, in its sole discretion, determine the means, manner and resources used to provide the Services in accordance with its reasonable business judgment. Without limiting the foregoing, NGSC may elect to modify or replace at any time (i) its policies and procedures, (ii) any Subsidiaries and/or third parties that provide any Services, (iii) the location from which any Service is provided or (iv) the intellectual property rights, information technology, products and services used to provide the Services.

Section 2.3 Additional Services. Schedule A may be amended at any time by amendment of this Transition Services Agreement to add additional services.

Section 2.4 Services Not Provided by NGSC. No services provided under this Transition Services Agreement shall be construed as accounting, legal or tax advice or shall create any fiduciary obligations on the part of NGSC or any of its Subsidiaries or Affiliates to any Person, including to NGSB or any of its Subsidiaries or Affiliates, or to any plan trustee or any customer of any of them.

Section 2.5 Use of Services. NGSC shall be required to provide Services only to NGSB in connection with NGSB’s operation of the Shipbuilding Business. NGSB shall not resell any Services to any Person whatsoever or permit the use of the Services by any Person other than in connection with the conduct of business in the ordinary course by NGSB. This provision shall not, however, prevent recovery by NGSB of all or any costs of such Services under any contract to which the NGSB is a party.

Section 2.6 Third-Party Providers. Each of NGSB and NGSC shall use commercially reasonable efforts (a) to obtain any required consents of the providers (“Third-Party Providers”) of any products or services to be used by NGSC in providing the Services (“Third-Party Products and Services”) and (b) where necessary, to obtain new licenses or similar agreements, to permit NGSC to use or receive the benefit of the Third-Party Products and Services during the term of this Transition Services Agreement to provide the Services; provided, however, that NGSC shall exclusively conduct all negotiations with Third-Party Providers in connection with (a) and (b), and that NGSC shall provide reasonable cooperation to NGSC in connection with such negotiations. Pursuant to Section 3.2, NGSB shall pay for any additional Third-Party Products and Services, including payments for any licenses, and any additional fees imposed by such Third-Party Providers, including any fees for services related to “knowledge transfer,” in each case reasonably necessary for NGSC to provide the Services. The parties understand and agree that provision of any Services requiring the use of any Third-Party Products and Services shall be subject to receipt of any required consents of the applicable Third-Party Providers. For the avoidance of doubt, the licenses and agreements referred to in this Transition Services Agreement refer only to those licenses and agreements necessary to permit NGSC to provide and for NGSC to receive Services under this Transition Services Agreement. New licenses and agreements necessary for HII or NGSB to stand up or separately operate its business after completion of the Services are not provided for herein and are the sole responsibility of HII and NGSB.
Section 2.7 Non-Exclusivity. Subject to the provisions of Section 4.1(a) governing the termination of Services, nothing in this Transition Services Agreement shall preclude NGSB from obtaining, in whole or in part, services of any nature that may be obtainable from NGSC, from its own employees or from providers other than NGSC.

Section 2.8 Cooperation. NGSB shall, in a timely manner, take all such actions as may be reasonably necessary or desirable in order to enable or assist NGSC in the provision of Services to NGSB, including providing necessary information and specific written authorizations and consents, and NGSC shall be relieved of its obligations hereunder to the extent that NGSB fails to take any such action, or NGSB’s failure to conclude or maintain any such action renders performance or ongoing performance by NGSC of such obligations unlawful, impracticable or unreasonable, in NGSC’s sole determination. NGSB shall be liable to NGSC and its Subsidiaries and Affiliates for any Liabilities resulting from, arising out of or relating to NGSB’s failure to comply with the obligations set forth in this Section 2.8.

Section 2.9 Limitation on Services. Unless expressly provided otherwise on Schedule A:

(a) NGSC shall only be required to provide the Services to or for the benefit of the Shipbuilding Business as conducted immediately prior to the date of this Transition Services Agreement;

(b) NGSB shall not use the Services other than in a manner directly related to the operation of the Shipbuilding Business as conducted immediately prior to the date of this Transition Services Agreement;

(c) NGSC shall not be required to expand its facilities, incur new long-term capital expenses or employ additional personnel or maintain the employment of any specific employee in order to provide the Services to NGSB;

(d) NGSC shall not be required to provide Services hereunder that are greater in nature and scope than the comparable services provided by NGSC to NGSB prior to the Distribution; and

(e) NGSC shall not be obligated to provide any Services to the extent inconsistent with applicable law or contract.

Section 2.10 Personnel. In providing the Services, NGSC, as it deems necessary or appropriate in its reasonable judgment, may (a) use the personnel of NGSC or its Affiliates and (b) employ the services of a Third-Party Provider to the extent the relevant Third-Party Products and Services are routinely utilized to provide similar services to other businesses of any member of the New NGC Group or are reasonably necessary for the efficient performance of any of such Services, provided that if NGSC obtains the services of a Third-Party Provider not routinely utilized to provide similar services to other business of NGSC, that NGSB consents prior to the use of such Third-Party Provider, which consent shall not be unreasonably withheld. NGSC will only employ the services of Third-Party Providers who have entered into non-disclosure agreements that obligate such third
parties to maintain the confidentiality of HII’s and NGSB’s proprietary and business sensitive information and that prohibit the Third-Party Provider from using such proprietary and business sensitive information for any purpose other than in connection with providing the Services.

Section 2.11 Right to Determine Priority. If there is an unavoidable conflict between the immediate needs of NGSC and those of NGSB as to the use of or access to a particular Service to be provided by NGSC, NGSC shall have the right, in its sole discretion, to establish reasonable priorities, at particular times and under particular circumstances, as between NGSC and NGSB. In any such situation, NGSC shall provide notice to NGSB of any such changes at the earliest practicable time.

Section 2.12 Independent Contractor. NGSC shall act under this Transition Services Agreement solely as an independent contractor and not as an agent of NGSB.

Section 2.13 Independence. Unless otherwise agreed in writing, all employees and representatives of NGSC who provide Services under this Transition Services Agreement shall be deemed for purposes of all compensation and employee benefits matters to be employees or representatives of NGSC and not employees or representatives of NGSB. In performing the Services, such employees and representatives shall be under the direction, control and supervision of NGSC (and not NGSB) and NGSC shall have the sole right to exercise all authority with respect to the employment (including termination of employment), assignment and compensation of such employees and representatives.

Section 2.14 Temporary Shutdowns for Maintenance. NGSC shall have the right to shut down temporarily for maintenance purposes the operation of the information technology resources, networks, related infrastructure and facilities providing any Service whenever in its judgment, reasonably exercised, such action is necessary; provided, however, that NGSC shall notify NGSB at least 20 days prior to any scheduled maintenance, to the extent reasonably practicable. In the event that it is not reasonably practicable to schedule the maintenance 20 days or more in advance, NGSB shall be notified that maintenance is required. NGSC shall give NGSB as much advance notice of any such shutdown as is reasonably practicable. When feasible, this notice shall be given in writing. When written notice is not feasible, oral notice shall be given and promptly confirmed in writing. NGSC shall be relieved of its obligations to provide Services during the period that its facilities are so shut down but shall use reasonable efforts to minimize each period of shutdown for such purpose and to schedule such shutdown so as not to inconvenience or disrupt NGSB’s conduct of its business.

Section 2.15 Access. NGSB shall make available on a timely basis to NGSC all information and materials reasonably requested by NGSC to enable it to provide the Services. NGSB shall give NGSC reasonable access, during regular business hours and at such other times as are reasonably required, to the business premises for the purposes of providing Services. NGSB shall fully inform NGSC of all of its applicable security and safety rules and regulations, and when accessing NGSB’s business premises, NGSC shall use reasonable efforts to comply with all of NGSB’s security and safety rules and regulations as described to NGSC.
Section 2.16 Disclaimer of Warranty. Except as expressly set forth in this Transition Services Agreement, the Services and products to be purchased under this Transition Services Agreement are furnished as is, where is, with all faults and without warranty of any kind, express or implied, including any warranty of merchantability or fitness for any particular purpose. NGSC does not make any warranty that any service complies with any law, domestic or foreign.

Section 2.17 Duty of Good Faith and Fair Dealing. The parties recognize that prior to the Distribution, NGSC was a provider of certain critical services necessary to the operations of the Shipbuilding Business. If the parties failed to list a service on Schedule A that is critical and essential to the Shipbuilding Business, then they agree to consider in good faith whether they can reasonably modify Schedule A to include such service.

Section 2.18 Program Managers. Each of NGSB and NGSC shall appoint a program manager who will be responsible for managing the relationship between the parties (each a “Program Manager”). The Program Managers shall be the preferred and primary points of contact for the parties in relation to this Transition Services Agreement. The responsibilities for the Program Managers shall include, and the Program Managers shall have the authority to:

(a) manage and resolve any disputes that arise under this Transition Services Agreement; and

(b) disseminate information obtained in their role as Program Managers, as appropriate, throughout their respective organizations.

In the event that the Program Managers cannot resolve any dispute that arises under this Transition Services Agreement within 30 days, then the dispute resolutions procedures set forth in Article X of the Separation Agreement shall govern such dispute.

ARTICLE III
COMPENSATION

Section 3.1 Service Charge. As consideration for the provision of the Services, NGSB shall, for each Service performed, pay NGSC the applicable dollar amount for such Service set forth on Schedule A (the “Service Charge”). In addition to the Service Charge for such Services, NGSC shall also be entitled to reimbursement from NGSB upon receipt of reasonable supporting documentation for all reasonable and necessary third-party and out-of-pocket expenses incurred in connection with NGSC’s provision of the Services that are not included as part of the Service Charge. In the event the Service is terminated, the Service Charge will be prorated for the number of days of Service received in the calendar month (based on a 30-day month) in which the Service is terminated.

Section 3.2 Invoicing and Payments.

(a) Invoices. Except as the parties shall otherwise agree, after the end of each month, NGSC shall submit an invoice to NGSB for the costs it incurred under this Transition Services Agreement for that month. Each invoice shall include a line item level
of detail for the previously agreed-upon Services for which there is a Service Charge, together with documentation supporting each of the invoiced amounts so that NGSB can make appropriate cost settlements to each business unit and cost center. NGSB shall pay all amounts due and payable under such invoice in accordance with Section 3.2(c).

(b) **Notice.** All invoices shall be in writing and shall be delivered by first class mail, facsimile or e-mail to the attention of NGSB at the following address, or pursuant to such other instructions as may be designated in writing by NGSB:

Northrop Grumman Shipbuilding, Inc.
4101 Washington Avenue
Newport News, VA 23607
Attention: Accounts Payable
Facsimile: (757) 688-8842
E-mail: accountspayable@hii-co.com

(c) **Payment.** All payments described in this Section 3.2 shall be made by electronic funds transmission in U.S. Dollars to an account designated by NGSC or NGSB, as applicable, without any offset or deduction of any nature whatsoever, within 30 days of the date of receipt of any properly submitted invoice. Invoices unpaid as of such date shall accrue interest at a rate equal to the daily average one-month LIBOR plus one percent (1%); **provided, however,** that interest shall not accrue for a period of up to one-month on past-due unpaid invoices if the delay or failure to pay results from causes beyond NGSB’s reasonable control, including any strikes, lock-outs or other labor difficulties, acts of any government, riot, insurrection or other hostilities, embargo, fuel or energy shortage, fire, flood, acts of God, wrecks or transportation delays, or inability to obtain necessary labor, materials or utilities. If NGSB fails to pay any amount due hereunder when due, NGSC shall have the right, without any liability to NGSB, or anyone claiming by or through NGSB, to cease providing any or all of the Services provided by NGSC to NGSB unless NGSB cures such a failure to make payment within five days of NGSC’s providing written notice of its intention to cease providing services, which right may be exercised by NGSC in its sole and absolute discretion.

Section 3.3 **Taxes.** All amounts invoiced by NGSC in connection with the Services shall include all taxes, duties, assessments and other charges that are imposed now or in the future by any Governmental Authority except that any applicable Virginia or Mississippi sales, value added or similar tax will be paid by NGSB directly to the appropriate state under direct payment permit No. 998008 (Virginia) and No. 57 (Mississippi).

Section 3.4 **Disputed Amounts.** In the event NGSB disputes the accuracy of any invoice, NGSB shall pay the full invoice. If NGSB fails to pay any undisputed amount owed under this Transition Services Agreement, NGSB shall correct such failure promptly following notice of the failure and shall pay NGSC interest on the amount paid late at an interest rate equal to the daily average one-month LIBOR plus one percent (1%).
Section 3.5 **Company’s Employees.** NGSC shall not be obligated to pay any amounts to NGSB or any of their employees in respect of payroll, benefits or similar obligations.

Section 3.6 **Third-Party Obligations.** NGSC shall not be required to use its own funds for any third-party-provided service or payment obligation of NGSB.

Section 3.7 **Books and Records.** NGSC shall keep books and records of the Services provided and reasonable supporting documentation of all charges incurred in connection with providing such Services and shall produce records that verify the Services were performed and when such Services were performed, and shall make such books and records available to NGSB upon reasonable notice, during normal business hours.

**ARTICLE IV**

**TERM AND TERMINATION**

Section 4.1 **Term.**

(a) This Transition Services Agreement shall become effective on the Distribution Date and shall remain in effect until the expiration of the last time period for the performance of Services scheduled on Schedule A (which in no event shall be longer than 12 months, unless extended pursuant to Section 4.2, the “**Term**”) unless (i) earlier terminated with respect to a particular Service by NGSB in accordance with Section 4.1(b) or by NGSC in accordance with Section 4.1(c) or (ii) this Transition Services Agreement is earlier terminated pursuant to Section 4.3.

(b) NGSB may cancel any Service upon 60 days’ written notice, subject to the requirement that, in addition to any other amounts due under this Transition Services Agreement, NGSB pays to NGSC the out-of-pocket costs reasonably incurred by NGSC to settle or terminate any agreements with Third-Party Providers who provide Services to NGSB, as well as the incremental internal costs, but excluding employee termination and severance costs, incurred by NGSC, as reasonably determined by NGSC, as a result of such cancellation, which out-of-pocket and internal costs shall be set forth in reasonable detail in a written invoice provided to NGSB.

(c) NGSC may cease to provide any Service upon 60 days’ written notice to NGSB if NGSC permanently ceases to provide such service to NGSC’s subsidiaries, sectors, divisions and business units, provided that NGSC reasonably cooperates with NGSB in transitioning such Service to another supplier; provided, further, that NGSC shall not unilaterally cease Services that NGSB reasonably determines are necessary for the conduct of the Shipbuilding Business, and in that event, the parties shall agree upon a limited transition period and plan.

Section 4.2 **Extension of Term.** The term of any Services may only be extended by amendment of this Transition Services Agreement.
Section 4.3 **Termination.** This Transition Services Agreement shall terminate on the earliest to occur of:

(a) the expiration of the Term;

(b) the date on which the provision of all Services has terminated or been canceled pursuant to Section 4.1; or

(c) the date on which this Transition Services Agreement is terminated pursuant to Section 4.4.

Section 4.4 **Breach of Transition Services Agreement.** If either party shall breach of any of its significant obligations under this Transition Services Agreement, including any failure to make payments when due, and such party does not cure such default within 30 days after receiving written notice thereof from the non-breaching party, the non-breaching party may terminate this Transition Services Agreement, including the provision of the Services pursuant hereto, immediately by providing written notice of termination.

Section 4.5 **Sums Due.** In the event of a termination of this Transition Services Agreement, NGSC shall be entitled to all outstanding amounts due from NGSB up to the date of termination.

Section 4.6 **Effect of Termination.** Sections 3.2 through 3.7, Section 4.5, Article VI, Article VII, Article VIII and this Section 4.6 shall survive any termination of this Transition Services Agreement.

Section 4.7 **Return of Records.** Upon the termination of a Service or Services with respect to which NGSC holds books, records or files, including current and archived copies of computer files, owned by NGSB and used by NGSC in connection with the provision of a Service to NGSB, NGSC will return all of such books, records or files as soon as reasonably practicable. NGSB shall bear NGSC’s costs and expenses associated with the return of such documents. At its expense, NGSC may make a copy of such books, records or files for its legal files.

**ARTICLE V**

**FORCE MAJEURE**

Section 5.1 **Event of Force Majeure.** NGSC shall not be liable for any interruption of Service, delay or failure to perform under this Transition Services Agreement when such interruption, delay or failure results from causes beyond its reasonable control, including any strikes, lock-outs or other labor difficulties, acts of any government, riot, insurrection or other hostilities, embargo, fuel or energy shortage, fire, flood, acts of God, wrecks or transportation delays, or inability to obtain necessary labor, materials or utilities. In any such event, NGSC’s obligations hereunder shall be postponed for such time as its performance is suspended or delayed on account thereof. NGSC will promptly notify NGSB either orally or in writing, upon learning of the occurrence of such event of force majeure.
Section 5.2 Reasonable Efforts. Upon the cessation of the force majeure event, NGSC will use reasonable efforts to resume its performance with the least possible delay.

ARTICLE VI
LIABILITIES

Section 6.1 Punitive and Consequential Damages. Except with respect to liabilities owed to third-parties not affiliated with either Group, neither party shall be liable to the other, whether in contract, in tort (including negligence and strict liability), or otherwise, for any punitive, indirect, incidental or consequential damages, which in any way arise out of, relate to, or are a consequence of, its performance or nonperformance hereunder, or the provision of or failure to provide any Service or perform any other obligation hereunder, including loss of profits and business interruptions.

Section 6.2 Limitation of Liability. In any event, the liability of NGSC with respect to this Transition Services Agreement or anything done in connection herewith, including the performance or breach hereof, or from the sale, delivery, provision or use of any Service or product provided under or covered by this Transition Services Agreement, whether in contract, tort (including negligence or strict liability) or otherwise, shall not exceed the dollar amounts previously paid to NGSC by NGSB in respect of the Service to which such liability relates.

Section 6.3 Obligation to Re-Perform. In the event of any breach of this Transition Services Agreement by NGSC with respect to any error or defect in the provision of any Service, NGSC shall, at NGSB’s request, correct such error or defect or re-perform such Services at the expense of NGSC.

Section 6.4 Release and Indemnity.

(a) Except as specifically set forth in this Transition Services Agreement, NGSB hereby releases NGSC, its employees, agents, officers and directors (the “NGSC Indemnitees”) and agrees to indemnify and hold harmless the NGSC Indemnitees from any and all claims, demands, complaints, liabilities, losses, damages and all costs and expenses arising from or relating to the provision or use of any Service or product provided hereunder to the extent not arising from the gross negligence or willful misconduct of NGSC.

(b) Any purchase order issued by NGSB to NGSC implementing performance of services under this Agreement shall contain the flow down of indemnification provided under Federal Acquisition Regulation 52.250-1 and Alternative I, “Indemnification under Public Law 85-804” and DFARS 252.235-7001 “Indemnification under 10 USC 2354-Cost Reimbursement.”
Section 7.1 Confidentiality.

(a) Each of the parties agrees that any business-sensitive and proprietary information of the other party marked or identified in writing as such and received in the course of performance under this Transition Services Agreement shall be kept strictly in confidence by the parties, except that either party may disclose such information for the purpose of providing or facilitating Services pursuant to this Transition Services Agreement to any subsidiary of either party or to third parties that provide such Services, provided, that any such third party shall have agreed to be bound by this Section 7.1. Upon the expiration or termination of this Transition Services Agreement, each party shall return to the other party all of such other party’s business-sensitive and proprietary information to the extent that such information has not been previously returned pursuant to Section 4.7. In lieu of returning such information, the receiving party may, with the disclosing party’s prior written approval, destroy such information and provide the disclosing party with a certificate of destruction, signed by an officer of the receiving party.

(b) During the Term, certain employees of the members of each Group will have access to and the ability to modify certain highly confidential and proprietary information of the other Group, including personnel information, financial records, subcontracts, pricing information, Protected Health Information (as that term is defined by the Health Insurance Portability and Accountability Act), and audit work papers. Those employees with enhanced access to highly confidential and proprietary information are listed on Schedule B. Schedule B may be updated from time to time by either party to reflect the deletion or addition of the employees of the members of such party’s Group with access to highly confidential and proprietary information of the other Group. The parties hereby agree that, in addition to the confidentiality undertakings set forth in Section 7.1(a), each party shall, as to its employees listed on Schedule B:

(i) brief each such employee regarding (A) the sensitive nature of the information to which he or she will have access and the necessity of assuring that there is no alteration modification, deletion of the other Group’s information, and that none of the other Group’s information is disclosed, either to third parties or to unauthorized personnel within such employee’s Group, and (B) procedures established by his or her employer for the protection of such information;

(ii) cause each such employee to enter into written undertakings acknowledging that he or she has been briefed on the proper procedures handling of the highly confidential and proprietary information and that he or she agrees to comply with those procedures; and

(iii) not grant any such employee access to the highly confidential and proprietary information until such employee has been briefed on the
procedures for handling highly confidential and proprietary information and executed the above-referenced written undertaking.

(c) During the Term, certain employees of the New NGC Group will have access to Protected Health Information (as that term is defined by the Health Insurance Portability and Accountability Act) of participants in the HII health plans. Access to, and use and disclosure of, that Protected health Information by employees of the New NGC Group will be subject to the Business Associate Agreement in the form attached hereto as Schedule C.

Section 7.2 Title to Data.

(a) NGSB acknowledges and agrees that it will acquire no right, title or interest (including any license rights or rights of use) in any firmware, software or hardware, and the licenses therefor that are owned by NGSC, by reason of NGSC’s provision of the Services provided hereunder.

(b) NGSC agrees that all records, data, files, input materials and other information received or computed for the benefit of NGSB and which relate to the conduct of NGSB’s operations are the property of NGSB. Nothing in the previous sentence shall create any obligation on the part of NGSC to provide hardware or other equipment to NGSB for the conduct of NGSB’s operations.

Section 7.3 Intellectual Property. The parties agree that each of NGSC and NGSB, as applicable, owns and shall retain sole ownership of its intellectual property, technology and data, including any intellectual property, technology or data (or improvements or modifications to any of the foregoing) created or developed by NGSC or NGSB, as applicable, in connection with the performance of Services hereunder (“Services IP”); provided, however, all data created pursuant to a Service and on behalf of NGSB as recipient of such Service shall be owned by NGSB. To the extent necessary to give effect to the foregoing, upon the request of NGSC or NGSB having created or developed Services IP, NGSC or NGSB, as applicable, shall promptly, and shall cause its employees, agents and contractors to promptly (a) disclose all information and provide copies of all documents relating to such Services IP to the developing party, (b) assign all right, title and interest in any such Services IP to the developing party (other than the business information created as the outcome of a Service delivered to NGSB, which shall be owned by NGSB) and (c) execute such documents and do such other acts as the developing party may reasonably request in relation to such Services IP. If the receipt or provision of the Services hereunder requires the use by NGSC or NGSB, as applicable, of the intellectual property, technology or data of NGSC or NGSB, as applicable, then NGSC or NGSB, as applicable, shall have the right to use such intellectual property, technology and data during the Term for the sole purpose of, and only to the extent necessary for, the receipt or provision of the Services hereunder, pursuant to the terms and conditions of this Transition Services Agreement. Except as provided under clause (b) of this Section 7.3, the transfer of intellectual property shall be governed exclusively by the Separation Agreement and IP License Agreement.
Section 7.4 Use of NGSC’s Information Systems

(a) NGSB acknowledges and agrees that use of NGSC’s computer network and Information Solutions Services (collectively, the “NGSC’s Network”) by NGSB, its employees, contractors and anyone else that NGSB directly or indirectly authorizes to use NGSC’s Network ("Authorized Users") shall be subject to compliance with New NGC’s Corporate Policy CP R1, “Computer Systems and Electronic Media,” and NGSC’s related corporate procedures, copies of which have been made available to NGSB. NGSB shall provide a copy of New NGC’s Corporate Policy CP R1 to all Authorized Users. NGSC shall use reasonable best efforts to provide NGSB with 20 days’ advance notice of any changes to Corporate Policy CP R1. This applies only to the NGSC network and does not apply to any networks that are firewalled off from the NGSC network.

(b) NGSB further acknowledges and agrees that all Authorized Users will see, at the time of login to NGSC’s Network, a login banner that will state, in substantially similar form, that individual users have no expectation of privacy in any information passing through or stored on NGSC’s Network and that any communications or data that pass through or are stored on NGSC’s Network may be monitored, intercepted, searched, disclosed or used for any lawful purpose by NGSC or a third party (the “NGSC’s Banner”). NGSB shall require consent to the terms of NGSC’s Banner as a condition precedent for use of NGSC’s Network by Authorized Users.

(c) NGSB also specifically agrees and consents to the specific terms of and activities set forth Section 7.4(b).

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1 Effect if Distribution Does Not Occur. If the Distribution does not occur, then all actions and events that are, under this Transition Services Agreement, to be taken or occur effective as of the Distribution, or otherwise in connection with the Distribution shall not be taken or occur except to the extent specifically agreed by the parties.

Section 8.2 Incorporation of Separation Agreement Provisions. The following provisions of the Separation Agreement are hereby incorporated herein by reference, and unless otherwise expressly specified herein, such provisions shall apply as if fully set forth herein (references in this Section 8.2 to an “Article” or “Section” shall mean Articles or Sections of the Separation Agreement, and references in the material incorporated herein by reference shall be references to the Separation Agreement): Article V (relating to Mutual Releases; Indemnification); Article VIII (relating to Further Assurances and Additional Covenants); Article IX (relating to Termination); Article X (relating to Dispute Resolution) and Article XI (relating to Miscellaneous). In the event of any conflict or inconsistency between any of the foregoing provisions of the Separation Agreement and any provision of this Transition Services Agreement, this Transition Services Agreement shall prevail with respect to matters governed by this Transition Services Agreement.
Section 8.3 Parties’ Obligations. Except where specifically provided otherwise, a party’s obligations under this Agreement shall include obligations of its employees and Affiliates. Each of HII and New NGC hereby agrees to take any actions, or refrain from taking any actions, to the extent required pursuant to this Agreement.
IN WITNESS WHEREOF, the parties have caused this Transition Services Agreement to be executed by their duly authorized representatives.

NORTHROP GRUMMAN SYSTEMS CORPORATION

By: /s/ Mark Rabinowitz
    Name: Mark Rabinowitz
    Title: President and Treasurer

NORTHROP GRUMMAN SHIPBUILDING, INC.

By: /s/ C. Michael Petters
    Name: C. Michael Petters
    Title: President and Chief Executive Officer

[Signature Page to Transition Services Agreement]
IN WITNESS WHEREOF, the parties have caused this Transition Services Agreement to be executed by their duly authorized representatives.

NEW P, INC.

By: /s/ Mark Rabinowitz  
Name: Mark Rabinowitz  
Title: President & Treasurer

HUNTINGTON INGALLS INDUSTRIES, INC.

By: /s/ C. Michael Petters  
Name: C. Michael Petters  
Title: President and Chief Executive Officer

[Signature Page to Transition Services Agreement]
These Terms and Conditions ("Terms") apply to stock units ("Stock Units") granted by Huntington Ingalls Industries, Inc. (the "Company") to its directors who are not employed by the Company or one of its subsidiaries. The date of grant of the Stock Units (the "Grant Date") and the number of Stock Units applicable to your award are set forth in the electronic stock plan award recordkeeping system ("Stock Plan System") maintained by the Company or its designee. These Terms apply only with respect to the stock units referred to above that are granted pursuant to the Company’s compensation program for its directors. If you were granted such stock units, you are referred to as the "Director" with respect to your award. Capitalized terms are generally defined in Section 8 below if not otherwise defined herein.

Each Stock Unit represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein. As used herein, the term “stock unit” means a non-voting unit of measurement which is deemed for bookkeeping purposes to be equivalent to one outstanding share of the Company’s Common Stock. The number of Stock Units subject to your award is subject to adjustment as provided herein. The Stock Unit award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Board, as such rules are in effect from time to time.

1. Vested Status; Payment of Stock Units

The Stock Units subject to your award shall be one hundred percent (100%) vested as of the Grant Date (subject to adjustment as provided in Section 4).

Except as otherwise provided below, all Stock Units shall be paid by the Company on or within 30 days following the Director’s Separation from Service. The Company shall pay such Stock Units in either an equivalent number of shares of Common Stock, or, in the discretion of the Board, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for the Stock Units to be paid in cash (subject to any applicable tax withholding as provided in Section 5 below) will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date that such Stock Units became payable. No fractional shares will be issued.

Notwithstanding anything contained herein to the contrary, if the Director is a Key Employee as of the Director’s Separation from Service, any payment triggered by the such Separation from Service shall be made on the first day of the seventh month following the date of such Separation from Service (or, if earlier, the date of the Director’s death). For the avoidance of doubt, the Director shall remain eligible to receive additional credits of Stock Units as dividend equivalents pursuant to Section 3 during any period of time payment of the Director’s Stock Units is delayed pursuant to this Section.

2. Non-Transferability and Other Restrictions

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

2.2 Recoupment of Awards. Any payments or issuances of shares with respect to the award are subject to recoupment pursuant to the Company’s Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time, as well as any recoupment or similar provisions of applicable law, and the Director shall promptly make any reimbursement requested by the Board pursuant to such policy or applicable law with respect to the award. Further, the Director agrees, by accepting the award, that the Company and its affiliates may deduct from any amounts it may owe the Director from time to time
(such as other compensation) to the extent of any amounts the Director is required to reimburse the Company pursuant to such policy or applicable law with respect to the award.

3. Compliance with Laws; No Stockholder Rights Prior to Issuance; Dividend Rights.

3.1 Compliance with Laws. The Company’s obligation to make any payments or issue any shares with respect to the award is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchange upon which stock of the Company may be listed.

3.2 Limitations on Rights Associated with Units. The Director shall not have the rights and privileges of a stockholder, including without limitation the right to vote or receive dividends (except as expressly provided in Section 3.3), with respect to any shares which may be issued in respect of the Stock Units until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Director), if such shares become deliverable.

3.3 Dividend Equivalent Rights Distributions. Not later than 60 days following each date that the Company pays an ordinary cash dividend on its Common Stock (if any), the Company shall credit the Director with an additional number of Stock Units equal to (i) the per share cash dividend paid by the Company on its Common Stock on such date, multiplied by (ii) the total number of Stock Units (including any dividend equivalents previously credited hereunder) subject to the Stock Unit award as of the related dividend payment record date, divided by (iii) the Fair Market Value of a share of Common Stock on the date of payment of such dividend. Any Stock Units credited pursuant to the foregoing provisions of this Section 3.3 shall be subject to the same vesting, payment and other terms, conditions and restrictions as the original Stock Units to which they relate. No crediting of Stock Units shall be made pursuant to this Section 3.3 with respect to any Stock Units which, as of such record date, have been paid pursuant to Section 1.

4. Adjustments.

The Stock Units are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Director written notice thereof which will set forth the nature of the adjustment.

5. Tax Matters.

5.1 Tax Withholding. The Company shall be entitled to require, as a condition of making any payments or issuing any shares upon payment of the Stock Units, that the Director or other person entitled to such shares or other payment pay any sums required to be withheld by federal, state, local or other applicable tax law with respect to such payment. Alternatively, the Company, in its discretion, may make such provisions for the withholding of taxes (if any such withholding is required) as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Director or reducing the number of shares otherwise deliverable with respect to the award (valued at their then Fair Market Value) by the amount necessary to satisfy any such withholding obligations at the flat percentage rates applicable to supplemental wages).

5.2 Transfer Taxes. The Company will pay all federal and state transfer taxes, if any, and other fees and expenses in connection with the issuance of shares in connection with the payment of the Stock Units.

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

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

6. Board Authority.

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

7. Plan; Amendment

The Stock Units are governed by, and the Director’s rights are subject to, all of the terms and conditions of the Plan and any other rules adopted by the Board, as the foregoing may be amended from time to time. The Director shall have no rights with respect to any amendment of these Terms or the Plan unless such amendment is in writing and signed by a duly authorized officer of the Company. In the event of a conflict between the provisions of the Stock Plan System and the provisions of these Terms and/or the Plan, the provisions of these Terms and/or the Plan, as applicable, shall govern.

8. Definitions

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

“Affiliated Company” means the Company and other entity related to the Company under the rules of Code Section 414.

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


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

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

“Key Employee” means an employee treated as a “specified employee” under Code Section 409A(a)(2)(B)(i) of the Company or an Affiliated Company (i.e., a key employee (as defined in Code Section 416(i) without regard to paragraph (5) thereof) if the Company’s or an Affiliated Company’s stock is publicly traded on an established securities market or otherwise. The Company shall determine in accordance with a uniform Company policy which participants are Key Employees as of each December 31 in accordance with IRS regulations or other guidance under Code Section 409A, provided that in determining the compensation of individuals for this purpose, the definition of compensation in Treas. Reg. § 1.415(c)-2(d)(3) shall be used. Such determination shall be effective for the 12-month period commencing on April 1 of the following year.

“Plan” means the Huntington Ingalls Industries, Inc. 2011 Long-Term Incentive Stock Plan, as it may be amended from time to time.

“Separation from Service” means a “separation from service” within the meaning of Code Section 409A (which Separation from Service generally will occur on the date the Director ceases to be a member of the Board).

“Successor” means the person acquiring a Director’s rights to a grant under the Plan by will or by the laws of descent or distribution.
These Terms and Conditions (“Terms”) apply to certain “Restricted Performance Stock Rights” (“RPSRs”) granted by Huntington Ingalls Industries, Inc. (the “Company”) in 2011. If you were granted an RPSR award by the Company in 2011, the date of grant of your RPSR award and the target number of RPSRs applicable to your award are set forth in the letter from the Company announcing your RPSR award grant (your “Grant Letter”) and are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to your 2011 RPSR award. If you were granted an RPSR award, you are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 10 below if not otherwise defined herein.

Each RPSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The performance period applicable to your award is January 1, 2011 to December 31, 2013 (the “Performance Period”). The target number of RPSRs subject to your award is subject to adjustment as provided herein. The RPSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Payment of RPSRs.

The RPSRs are subject to the vesting and payment provisions established (or to be established, as the case may be) by the Committee with respect to the Performance Period. RPSRs that vest based on such provisions will be paid as provided below. No fractional shares will be issued.

1.1 Performance-Based Vesting of RPSRs. At the conclusion of the Performance Period, the Committee shall determine whether and the extent to which the applicable performance criteria have been achieved for purposes of determining earnouts and RPSR payments. Based on its determination, the Committee shall determine the percentage of target RPSRs subject to the award (if any) that have vested for the Performance Period in accordance with the earnout schedule established (or to be established, as the case may be) by the Committee with respect to the Performance Period (the “Earnout Percentage”). Any RPSRs subject to the award that are not vested as of the conclusion of the Performance Period after giving effect to the Committee’s determinations under this Section 1.1 shall terminate and become null and void immediately following such determinations.

1.2 Payment of RPSRs. The number of RPSRs payable at the conclusion of the Performance Period (“Earned RPSRs”) shall be determined by multiplying the Earnout Percentage by the target number of RPSRs subject to the award. The Earned RPSRs may be paid out in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for each Earned RPSR to be paid in cash will equal the Fair Market Value of a share of Common Stock as of the date the Committee determines the extent to which the applicable RPSR performance criteria have been achieved. RPSRs will be paid in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

2. Early Termination of Award; Termination of Employment

2.1 General. The RPSRs subject to the award shall terminate and become null and void prior to the conclusion of the Performance Period if and when (a) the award terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

2.2 Termination of Employment Due to Retirement, Death or Disability. The number of RPSRs subject to the award shall vest on a prorated basis as provided herein if the Grantee’s employment by the Company and its subsidiaries terminates due to the Grantee’s Retirement, death, or Disability and in each case, only if the Grantee has completed at least six (6) consecutive calendar months of
employment with the Company or a subsidiary during the three-year Performance Period. Such prorating of RPSRs shall be based on the number of full months the Grantee was actually employed by the Company or one of its subsidiaries out of the thirty-six month Performance Period. Partial months of employment during the Performance Period, even if substantial, shall not be counted for purposes of prorated vesting. Any RPSRs subject to the award that do not vest in accordance with this Section 2.2 upon a termination of the Grantee’s employment due to Retirement, death or Disability shall terminate immediately upon such termination of employment.

Death or Disability. In the case of death or Disability (a) the Performance Period used to calculate the Grantee’s Earned RPSRs will be deemed to have ended as of the most recent date that performance has been measured by the Company with respect to the RPSRs (but in no event shall such date be more than one year before the Grantee’s termination of employment), (b) the Earnout Percentage of the Grantee’s RPSRs will be determined based on actual performance for that short Performance Period, and (c) payment of Earned RPSRs will be made in the calendar year containing the 75th day following the date of the Grantee’s death or Disability (and generally will be paid on or about such 75th day).

Retirement in General. Subject to the following provisions of this Section 2.2, in the case of Retirement, (a) the entire Performance Period will be used to calculate the Grantee’s Earned RPSRs, (b) the Earnout Percentage of the Grantee’s RPSRs will be determined based on actual performance for the Performance Period, and (c) payment of Earned RPSRs will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year).

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

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

2.3 Other Terminations of Employment. Subject to Section 5.2, all RPSRs subject to the award terminate immediately upon a termination of the Grantee’s employment: (a) for any reason other than due to the Grantee’s Retirement, death or Disability; or (b) for Retirement, death or Disability, if the six-month employment requirement under Section 2.2 above is not satisfied.

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

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

2.6 **Sale or Spinoff of Subsidiary or Business Unit.** For purposes of the RPSRs subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested, the Grantee does not otherwise continue to be employed by the Company or one of its subsidiaries after such event, and the divested entity or business (or its successor or a parent company) does not assume the award in connection with such transaction. In the event of such a termination of employment, the termination shall be deemed to be a Retirement treated as provided for in Section 2.2 (subject to Section 5).

2.7 **Continuance of Employment Required.** Except as expressly provided in Sections 2.2 and 2.4 above and in Section 5 below, the vesting of the RPSRs subject to the award requires continued employment through the last day of the Performance Period as a condition of the payment of such RPSRs. Employment for only a portion of the Performance Period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Grant Letter, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee’s status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

2.8 **Death.** In the event of the Grantee’s death subsequent to the vesting of RPSRs but prior to the delivery of shares or other payment with respect to such RPSRs, the Grantee’s Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement with respect to such RPSRs.

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

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

3.2 **Recoupment of Awards.** Any payments or issuances of shares with respect to the award are subject to recoupment pursuant to the Company’s Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time as well as any recoupment or similar provisions of applicable law, and the Grantee shall promptly make any reimbursement requested by the Board or Committee pursuant to such policy or applicable law with respect to the award. Further, the Grantee agrees, by accepting the award, that the Company and its affiliates may deduct from any amounts it may owe the Grantee from time to time (such as wages or other compensation) to the extent of any amounts the Grantee is required to reimburse the Company pursuant to such policy or applicable law with respect to the award.

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

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

5. **Adjustments: Change in Control**

   5.1 **Adjustments.** The RPSRs and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In addition, for RPSRs that do not use a relative total shareholder return metric as the applicable performance criterion, the Committee shall adjust the applicable performance criteria to eliminate the effects of the gain, loss, income or expense or other extraordinary items resulting from (i) changes in accounting principles that become effective during the Performance Period, (ii) the purchase or disposition of a business during the Performance Period, and (iii) extraordinary charges not foreseen at the date of grant of the RPSRs, provided that the Committee shall have the discretion not to make any such adjustment if not making such adjustment would result in a reduction in the number of Earned RPSRs. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

   5.2 **Possible Acceleration on Change in Control.** Notwithstanding the provisions of Section 2 hereof, and further subject to the Company’s ability to terminate the award as provided in Section 5.3 below, the Grantee shall be entitled to vesting of the award as provided below in the event of the Grantee’s termination of employment in the following circumstances:

   (a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, and the termination of employment constitutes a “Qualifying Termination” (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee’s right to severance benefits under such Change in Control Severance Arrangement.

   (b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination, the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, and the Grantee’s employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

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

   In the event the Grantee is entitled to payment in accordance with the foregoing provisions of this Section 5.2, then the Grantee will be eligible for payment of a number of RPSRs determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the last day of the month coinciding with or immediately preceding the date of the termination of the Grantee’s employment, multiplied by (b) the target number of RPSRs subject to the award. Payment of any amount due under this Section 5.2 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year) unless: (i) the Grantee dies or has a Disability, in which case such payment will be made in the calendar year containing the 75th day following the date of the Grantee’s death or Disability, as the case may be (and generally will be
5.3 Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the Grantee shall be entitled to a payment of the RPSRs as provided below and the award shall terminate. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to continue and assume the award. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the award; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

In the event the Grantee is entitled to a payment in accordance with the foregoing provisions of this Section 5.3, then the Grantee will be eligible for payment of a number of RPSRs determined in accordance with the following formula: (a) the Earnout Percentage determined in accordance with Section 1 but calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company, multiplied by (b) the target number of RPSRs subject to the award. Payment of any amount due under this Section 5.3 will be made in the calendar year following the calendar year containing the last day of the Performance Period (and generally will be paid in the first 75 days of such year) unless: (i) the Grantee dies or has a Disability, in which case such payment will be made in the calendar year containing the 75th day following the date of the Grantee’s death or Disability, as the case may be (and generally will be paid on or about such 75th day), or (ii) a Governmental Service Retirement by the Grantee, in which case payment will be made within 10 days after Retirement. In the event the Grantee is employed by the Company or a subsidiary immediately prior to the Change in Control and is entitled to payment in accordance with the foregoing provisions of this Section 5.3, then this Section 5.3 shall control as to the amount and timing of the payment of the award notwithstanding anything in Section 2.2 or 5.2 to the contrary. In the event of the Grantee’s Retirement pursuant to Section 2.2 prior to a Change in Control described in the first paragraph of this Section 5.3 in which the award is to be terminated, the Earnout Percentage shall no longer be based on the portion of the Performance Period otherwise considered for purposes of Section 2.2 but shall instead be calculated based on performance for the portion of the three-year Performance Period ending on the date of the Change in Control of the Company.


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

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

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

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

7. Committee Authority.

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

8. Plan; Amendment.

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

9. Required Holding Period.

The holding requirements of this Section 9 shall apply to any Grantee who is an elected or appointed officer of the Company on the date Earned RPSRs are paid (or, if earlier, on the date the Grantee’s employment by the Company and its subsidiaries terminates for any reason). Any Grantee subject to this Section 9 shall not be permitted to sell, transfer, anticipate, alienate, assign, pledge, encumber or charge 50% of the total number (if any) of shares of Common Stock the Grantee receives as payment for Earned RPSRs until the earlier of (A) the third anniversary of the date such shares of Common Stock are paid to the Grantee, or (B) the date the Grantee’s employment by the Company and its subsidiaries terminates due to the Grantee’s death or Disability. Should the Grantee’s employment by the Company and its subsidiaries terminate (regardless of the reason for such termination, but other than due to the Grantee’s death or Disability), such holding period requirement shall not apply as to any shares acquired upon payment of Earned RPSRs to the extent such payment is made more than one year after such termination of employment. (For purposes of clarity, in such circumstances the holding period requirement will apply as to any shares acquired upon payment of Earned RPSRs within one year after such a termination of employment.) For purposes of this Section 9, the total number of shares of Common Stock the Grantee receives as payment for Earned RPSRs shall be determined on a net basis after taking into account any shares otherwise deliverable with respect to the award that the Company withholds to satisfy tax obligations pursuant to Section 6.1. Any shares of Common Stock received in respect of shares that are covered by the holding period requirements of this Section 9 (such as shares received in respect of a stock split or stock dividend) shall be subject to the same holding period requirements as the shares to which they relate.

10. Definitions.

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

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

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

(i) The Grantee’s conviction for committing an act of fraud, embezzlement, theft, or other act
constituting a felony (other than traffic related offenses or as a result of vicarious liability); or

(ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee’s part shall be considered “willful” unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

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

“Change in Control Severance Arrangement” means a “Special Agreement” entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company’s Change-in-Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan that provides severance protections in the event of a change in control of the Company.


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

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

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

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

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

(i) A material and substantial reduction in the nature or status of the Grantee’s authorities or responsibilities (when such authorities and/or responsibilities are viewed in the aggregate) from their level in effect on the day immediately prior to the start of the Protected Period, other than (A) an inadvertent act that is remedied by the Company promptly after receipt of notice thereof given by the Grantee, and/or (B) changes in the nature or status of the Grantee’s authorities or responsibilities that, in the aggregate, would generally be viewed by a nationally-recognized executive placement firm as resulting in the Grantee having not materially and substantially fewer authorities and responsibilities (taking into consideration the Company’s industry) when compared to the authorities and responsibilities applicable to the position held by the Grantee immediately prior to the start of the Protected Period. The Company may retain a nationally-recognized executive placement firm for purposes of making the determination required by the preceding sentence and the written opinion of the firm thus selected shall be conclusive as to this issue. In addition, if the Grantee is a vice president, the Grantee’s loss of vice-president status will constitute “Good Reason”; provided that the loss of the title of “vice president” will not, in and of itself, constitute Good Reason if the Grantee’s lack of a vice president title is generally consistent with the manner in which the title of vice president is used within the Grantee’s business unit or if the loss of the title is the result of a promotion to a higher level office. For the purposes of the preceding sentence, the Grantee’s lack of a vice-president title will only be considered generally consistent with the manner in which such title is used if most persons in the business unit with authorities, duties, and responsibilities comparable to those of the Grantee immediately prior to the
commencement of the Protected Period do not have the title of vice-president.

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

(iii) A material reduction in the aggregate value of the Grantee’s level of participation in any of the Company’s short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be “Good Reason” if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

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

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

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

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

“Parent” is used as defined in the Plan.

The “Plan” means the Huntington Ingalls Industries, Inc. 2011 Long-Term Incentive Stock Plan, as it may be amended from time to time.

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

(i) If the Change in Control is triggered by a tender offer for shares of the Company’s stock or by the offeror’s acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

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

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“Retirement” or “Retire” means that the Grantee terminates employment after attaining age 55 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause). In the case of a Grantee who is an officer of the Company subject to the Company’s mandatory retirement at age 65 policy, “Retirement” or “Retire” shall also include as to that Grantee (without limiting the Grantee’s ability to Retire pursuant to the preceding sentence) a termination of the Grantee’s employment pursuant to such mandatory retirement policy (regardless of the Grantee’s years of service and other than in connection with a termination by the Company or a subsidiary for cause).

“Successor” means the person acquiring a Grantee’s rights to a grant under the Plan by will or by the laws of descent or distribution.
These Terms and Conditions (“Terms”) apply to certain “Restricted Stock Rights” (“RSRs”) granted by Huntington Ingalls Industries, Inc. (the “Company”) in 2011. If you were granted an RSR award by the Company in 2011, the date of grant of your RSR award (the “Grant Date”) and the number of RSRs applicable to your award are set forth in the letter from the Company announcing your RSR award grant (your “Grant Letter”) and are also reflected in the electronic stock plan award recordkeeping system (“Stock Plan System”) maintained by the Company or its designee. These Terms apply only with respect to the 2011 RSR award. If you were granted an RSR award, you are referred to as the “Grantee” with respect to your award. Capitalized terms are generally defined in Section 10 below if not otherwise defined herein.

Each RSR represents a right to receive one share of the Company’s Common Stock, or cash of equivalent value as provided herein, subject to vesting as provided herein. The number of RSRs subject to your award is subject to adjustment as provided in Section 5.1. The RSR award is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. Vesting; Issuance of Shares.

Subject to Sections 2 and 5 below, one hundred percent (100%) of the number of RSRs subject to your award (subject to adjustment as provided in Section 5.1) shall vest upon the third anniversary of the Grant Date.

Except as otherwise provided below, the Company shall pay a vested RSR within 90 days following the vesting of the RSR on the third anniversary of the Grant Date. The Company shall pay such vested RSRs in either an equivalent number of shares of Common Stock, or, in the discretion of the Committee, in cash or in a combination of shares of Common Stock and cash. In the event of a cash payment, the amount of the payment for a vested RSR to be paid in cash (subject to tax withholding as provided in Section 6 below) will equal the Fair Market Value (as defined below) of a share of Common Stock as of the date that such RSR became vested. No fractional shares will be issued.

2. Early Termination of Award; Termination of Employment.

2.1 General. The RSRs subject to the award, to the extent not previously vested, shall terminate and become null and void if and when (a) the award terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided in Section 2.6 and in Section 5, the Grantee ceases for any reason to be an employee of the Company or one of its subsidiaries.

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

2.3 Salary Continuation. Subject to Section 2.2 above, the term “employment” as used herein means active employment by the Company and salary continuation without active employment (other than a leave of absence approved by the Company that is covered by Section 2.2) will not, in and of itself, constitute “employment” for purposes hereof (in the case of salary continuation without active employment, the Grantee’s cessation of active employee status shall, subject to Section 2.2, be deemed to be a termination of “employment” for purposes hereof). Furthermore, salary continuation will not, in and of itself, constitute a leave of absence approved by the Company for purposes of the award.

2.4 Sale or Spinoff of Subsidiary or Business Unit. For purposes of the RSRs subject to the award, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested, the Grantee does not otherwise continue to be employed by the Company after such event, and the divested entity or business (or its successor or a parent company) does not assume the award in connection with such transaction.

2.5 Continuance of Employment Required. Except as expressly provided in Section 2.6 and in Section 5, the vesting of the RSRs subject to the award
requires continued employment through the third anniversary of the Grant Date as a condition to the vesting of any portion of the award. Employment for only a portion of the vesting period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee’s status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

2.6 Death or Disability. If the Grantee dies or incurs a Disability while employed by the Company or a subsidiary, the outstanding and previously unvested RSRs subject to the award shall vest as of the date of the Grantee’s death or Disability, as applicable. RSRs vesting under this Section shall be paid in the calendar year containing the 75th day (and generally will be paid on or about such 75th day) following the earlier of (a) Grantee’s death or (b) Grantee’s Disability. In the event of the Grantee’s death prior to the delivery of shares or other payment with respect to any vested RSRs, the Grantee’s Successor shall be entitled to any payments to which the Grantee would have been entitled under this Agreement with respect to such vested and unpaid RSRs.

3. Non-Transferability and Other Restrictions

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

3.2 Recoupment of Awards. Any payments or issuances of shares with respect to the award are subject to recoupment pursuant to the Company’s Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time, as well as any recoupment or similar provisions of applicable law, and the Grantee shall promptly make any reimbursement requested by the Board or Committee pursuant to such policy or applicable law with respect to the award. Further, the Grantee agrees, by accepting the award, that the Company and its affiliates may deduct from any amounts it may owe the Grantee from time to time (such as wages or other compensation) to the extent of any amounts the Grantee is required to reimburse the Company pursuant to such policy or applicable law with respect to the award.

4. Compliance with Laws; No Stockholder Rights Prior to Issuance.

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

5. Adjustments: Change in Control

5.1 Adjustments. The RSRs and the shares subject to the award are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

5.2 Possible Acceleration on Change in Control. Notwithstanding the Company’s ability to terminate the award as provided in Section 5.3 below, the outstanding and previously unvested RSRs subject to the award shall become fully vested as of the date of the Grantee’s termination of employment in the following circumstances:

(a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a “Qualifying Termination” (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee’s right to severance benefits under such Change in Control Severance Arrangement.

(b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination and if the termination occurs either within the Protected Period corresponding
to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee’s employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

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

Payment of any amount due under this Section will be made within 90 days of the third anniversary of the Grant Date.

5.3 Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (ii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) or a Parent thereof does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control, or if for any other reason the award would not continue after the Change in Control, then upon the Change in Control the outstanding and previously unvested RSRs subject to the award shall vest fully and completely. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting of the award shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) or a Parent thereof) agrees in writing prior to the Change in Control to assume the award. The award shall terminate, subject to such acceleration provisions, upon a Change in Control triggered by clause (ii) or (iv) of the definition thereof in which the Company is not the surviving entity and the successor to the Company (if any) or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the award following the Change in Control. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the award pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the RSRs; provided, however, that, the Committee may reinstate the original terms of the award if the related event does not actually occur.

Payment of any amount due under this Section will be made within 90 days of the third anniversary of the Grant Date.


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

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

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

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

7. Committee Authority.

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

8. Plan: Amendment.

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

9. Required Holding Period.

The holding requirements of this Section 9 shall apply to any Grantee who is an elected or appointed officer of the Company on the date vested RSRs are paid (or, if earlier, on the date the Grantee’s employment by the Company and its subsidiaries terminates for any reason). Any Grantee subject to this Section 9 shall not be permitted to sell, transfer, anticipate, alienate, assign, pledge, encumber or charge 50% of the total number (if any) of shares of Common Stock the Grantee receives as payment for vested RSRs until the earlier of (A) the third anniversary of the date such shares of Common Stock are paid to the Grantee, or (B) the date the Grantee’s employment by the Company and its subsidiaries terminates due to the Grantee’s death or Disability. For purposes of this Section 9, the total number of shares of Common Stock the Grantee receives as payment for vested RSRs shall be determined on a net basis after taking into account any shares otherwise deliverable with respect to the award that the Company withholds to satisfy tax obligations pursuant to Section 6.1. Any shares of Common Stock received in respect of shares that are covered by the holding period requirements of this Section 9 (such as shares received in respect of a stock split or stock dividend) shall be subject to the same holding period requirements as the shares to which they relate.

10. Definitions.

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

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

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

(i) The Grantee’s conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or

(ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee’s part shall be considered “willful” unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

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

“Change in Control Severance Arrangement” means a “Special Agreement” entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company’s Change-in-Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan that provides severance protections in the event of a change in control of the Company.


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

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

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

“Fair Market Value” is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the award may
“Good Reason” means, without the Grantee’s express written consent, the occurrence of any one or more of the following:

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

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

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

(iii) A material reduction in the aggregate value of the Grantee’s level of participation in any of the Company’s short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate value shall not be deemed to be “Good Reason” if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

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

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

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

“Parent” is used as defined in the Plan.

“Plan” means the Huntington Ingalls Industries, Inc. 2011 Long-Term Incentive Stock Plan, as it may be amended from time to time.

The “Protected Period” corresponding to a Change in Control of the Company shall be a period of time determined in accordance with the following:
(i) If the Change in Control is triggered by a tender offer for shares of the Company’s stock or by the offeror’s acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

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

“Successor” means the person acquiring a Grantee’s rights to a grant under the Plan by will or by the laws of descent or distribution.
These Terms and Conditions (the "Terms") apply to certain stock options granted by Huntington Ingalls Industries, Inc. (the "Company") in 2011. If you were granted a stock option by the Company in 2011, the date of grant (the "Grant Date") of your stock option (your "Option"), the total number of shares of common stock of the Company subject to your Option, and the per share exercise price of your Option are set forth in the letter from the Company announcing your Option grant (your "Grant Letter") and are also reflected in the electronic stock plan award recordkeeping system ("Stock Plan System") maintained by the Company or its designee. These Terms apply only with respect to your 2011 Option. If you were granted an Option, you are referred to as the "Grantee" with respect to your Option. Capitalized terms are generally defined in Section 10 below if not otherwise defined herein.

The Option represents a right to purchase the number of shares of the Company’s Common Stock, for the per share exercise price of the Option, each as stated in your Grant Letter and as reflected in the Stock Plan System. The number of shares and exercise price of the Option are subject to adjustment as provided herein. The Option is subject to all of the terms and conditions set forth in these Terms, and is further subject to all of the terms and conditions of the Plan, as it may be amended from time to time, and any rules adopted by the Committee, as such rules are in effect from time to time.

1. **Vesting; Exercise of Option**

1.1 **Vesting.** The Option is exercisable only to the extent that it has vested and has not expired or terminated. Subject to Sections 2 and 5 below, one-third (1/3) of the total number of shares of Company Common Stock subject to the Option (subject to adjustment as provided in Section 5.1) shall vest and become exercisable upon each of the first, second and third anniversaries of the Grant Date.

1.2 **Method of Exercise.** In order to exercise the Option, the Grantee or such other person as may be entitled to exercise the same shall (a) execute and deliver to the Corporate Secretary of the Company a written notice indicating the number of shares subject to the Option to be exercised, and/or (b) complete such other exercise procedure as may be prescribed by the Corporate Secretary of the Company. The date of exercise of the Option shall be the day such notice is received by the Corporate Secretary of the Company or the day such exercise procedures are satisfied, as applicable; provided that in no event shall the Option be considered to have been exercised unless the per share exercise price of the Option is paid in full (or provided for in accordance with Section 1.3) for each of the shares to be acquired on such exercise and all required tax withholding obligations with respect to such exercise have been satisfied or provided for in accordance with Section 6 hereof. No fractional shares will be issued.

1.3 **Payment of Exercise Price.** The exercise price shall be paid at the time of exercise. Payment may be made (a) in cash; (b) in the sole discretion of the Committee and on such terms and conditions as the Corporate Secretary of the Company may prescribe, either in whole or in part (i) by a reduction in the number of shares of Common Stock otherwise deliverable pursuant to the Option (valued at their Fair Market Value on the date of exercise of the Option) or (ii) in Common Stock of the Company (either actually or by attestation and valued at their Fair Market Value on the date of exercise of the Option); (c) in a combination of payments under clauses (a) and (b); or (d) pursuant to a cashless exercise arranged through a broker or other third party. Notwithstanding the foregoing, the Committee may at any time (a) limit the ability of the Grantee to exercise the Option through any method other than a cash payment, or (b) require the Grantee to exercise, to the extent possible, the Option in the manner described in clauses (b)(i) and (b)(ii) of the preceding sentence.

1.4 **Tax Status.** The Option is not and shall not be deemed to be an incentive stock option within the meaning of Section 422 of the Code.

2. **Termination of Option; Termination of Employment**

2.1 **General.** The Option, to the extent not previously exercised, and all other rights in respect thereof, whether vested and exercisable or not, shall terminate and become null and void at the close of business on the last business day preceding the seventh (7th) anniversary of the Grant Date (the "Expiration Date"). The Option, to the extent not previously exercised, and all other rights in respect
thereof, whether vested and exercisable or not, shall terminate and become null and void prior to the Expiration Date if and when (a) the Option terminates in connection with a Change in Control pursuant to Section 5 below, or (b) except as provided below in this Section 2 and in Section 5, the Grantee ceases to be an employee of the Company or one of its subsidiaries.

2.2 Termination of Employment Due to Retirement. If the Grantee ceases to be employed by the Company or one of its subsidiaries due to the Grantee’s Early Retirement and such Early Retirement occurs more than six months after the Grant Date, the next succeeding vesting installment of the Option shall vest, and all installments under the Option which have vested may be exercised by the Grantee (or, in the event of the Grantee’s death, by the Grantee’s Successor) until the fifth anniversary of the Grantee’s Early Retirement, but in no event after the Expiration Date. Any remaining unvested installments, after giving effect to the foregoing sentence, shall terminate immediately upon the Grantee’s Early Retirement. If the Grantee ceases to be employed by the Company or one of its subsidiaries due to the Grantee’s Normal Retirement and such Normal Retirement occurs more than six months after the Grant Date, all remaining installments of the Option shall vest, and all installments under the Option may be exercised by the Grantee (or, in the event of the Grantee’s death, by the Grantee’s Successor) until the fifth anniversary of the Grantee’s Normal Retirement, but in no event after the Expiration Date.

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

2.3 Termination of Employment Due to Death or Disability. If the Grantee dies while employed by the Company or a subsidiary and such death occurs more than six months after the Grant Date, or if the Grantee’s employment by the Company and its subsidiaries terminates due to the Grantee’s Disability and such termination occurs more than six months after the Grant Date, the next succeeding vesting installment of the Option shall vest, and all installments under the Option which have vested may be exercised by the Grantee (or, in the case of the Grantee’s death, by the Grantee’s Successor) until the fifth anniversary of the Grantee’s death or Disability, whichever first occurs, but in no event after the Expiration Date. Any remaining unvested installments, after giving effect to the foregoing sentence, shall terminate immediately upon the Grantee’s death or Disability, as applicable.

2.4 Other Terminations of Employment. Subject to the following sentence, if the employment of the Grantee with the Company or a subsidiary is terminated for any reason other than the Grantee’s Early or Normal Retirement, death, or Disability, or in the event of a termination of the Grantee’s employment with the Company or a subsidiary on or before the six-month anniversary of the Grant Date due to the Grantee’s Early or Normal Retirement, death, or Disability, the Option may be exercised (as to not more than the number of shares as to which the Grantee might have exercised the Option on the date on which his or her employment terminated) only within 90 days from the date of such termination of employment, but in no event after the Expiration Date; provided, however, that if the Grantee is dismissed by the Company or a subsidiary for cause, the Option shall expire forthwith. If the Grantee dies within 90 days after a termination of employment

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described in the preceding sentence (other than a termination by the Company or a subsidiary for cause), the Option may be exercised by the Grantee’s Successor for one year from the date of the Grantee’s death, but in no event after the Expiration Date and as to not more than the number of shares as to which the Grantee might have exercised the Option on the date on which his or her employment by the Company or a subsidiary terminated. For purposes of this Section 2 and prior to a Change in Control, the Company shall be the sole judge of “cause” unless such term is expressly defined in a written employment agreement by and between the Grantee and either the Company or one of its subsidiaries, in which case “cause” is used as defined in such employment agreement for purposes of this Section 2. Prior to a Change in Control, the definition of “Cause” in Section 10 does not apply for purposes of this Section 2. With respect to a termination of employment upon or following a Change in Control, the definition of “Cause” in Section 10 shall apply for purposes of this Section 2.

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

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

2.7 Sale or Spinoff of Subsidiary or Business Unit. For purposes of the Option, a termination of employment of the Grantee shall be deemed to have occurred if the Grantee is employed by a subsidiary or business unit and that subsidiary or business unit is sold, spun off, or otherwise divested, the Grantee does not otherwise continue to be employed by the Company after such event, and the divested entity or business (or its successor or a parent company) does not assume the Option in connection with such transaction. In the event of such a termination of employment, the termination shall be deemed to be an Early Retirement unless the Grantee was otherwise eligible at the time of termination for Normal Retirement (in which case, the termination shall be considered a Normal Retirement) treated as provided for in Section 2.2 (subject to Section 5).

2.8 Continuance of Employment Required. Except as expressly provided in Sections 2.2 and 2.3 above, and Section 5 below, the vesting of the Option requires continued employment through each vesting date as a condition to the vesting of the corresponding installment of the award. Employment before or between the specified vesting dates, even if substantial, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment. Nothing contained in these Terms, the Grant Letter, the Stock Plan System, or the Plan constitutes an employment commitment by the Company or any subsidiary, affects the Grantee’s status (if the Grantee is otherwise an at-will employee) as an employee at will who is subject to termination without cause, confers upon the Grantee any right to continue in the employ of the Company or any subsidiary, or interferes in any way with the right of the Company or of any subsidiary to terminate such employment at any time.

3. Non-Transferability and Other Restrictions

3.1 Non-Transferability. The Option is non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge. The foregoing transfer restrictions shall not apply to: (a) transfers to the Company; (b) transfers by will or the laws of descent and distribution; or (c) if the Grantee has suffered a disability, permitted transfers to or exercises on behalf of the holder by his or her legal representative. Notwithstanding the foregoing, the Company may honor any transfer required pursuant to the terms of a court order in a divorce or similar domestic relations matter to the extent that such transfer does not adversely affect the Company’s ability to register the offer and sale of the underlying shares on a Form S-8 Registration Statement and
such transfer is otherwise in compliance with all applicable legal, regulatory and listing requirements.

3.2 Recoupment of Awards. Any payments or issuances of shares with respect to the Option are subject to recoupment pursuant to the Company’s Policy Regarding the Recoupment of Certain Performance-Based Compensation Payments as in effect from time to time, as well as any recoupment or similar provisions of applicable law, and the Grantee shall promptly make any reimbursement requested by the Board or Committee pursuant to such policy or applicable law with respect to the Option. Further, the Grantee agrees, by accepting the Option, that the Company and its affiliates may deduct from any amounts it may owe the Grantee from time to time (such as wages or other compensation) to the extent of any amounts the Grantee is required to reimburse the Company pursuant to such policy or applicable law with respect to the Option.

4. Compliance with Laws; No Stockholder Rights Prior to Issuance.

The Company’s obligation to issue any shares with respect to the Option is subject to full compliance with all then applicable requirements of law, the Securities and Exchange Commission or other regulatory agencies having jurisdiction over the Company and its shares, and of any exchanges upon which stock of the Company may be listed. The Grantee shall not have the rights and privileges of a stockholder with respect to shares subject to or purchased under the Option until the date appearing on the certificate(s) for such shares (or, in the case of shares entered in book entry form, the date that the shares are actually recorded in such form for the benefit of the Grantee) issued upon the exercise of the Option.

5. Adjustments; Change in Control.

5.1 Adjustments. The number, type and price of shares subject to the Option, as well as the per share exercise price of the Option, are subject to adjustment upon the occurrence of events such as stock splits, stock dividends and other changes in capitalization in accordance with Section 6(a) of the Plan. In the event of any adjustment, the Company will give the Grantee written notice thereof which will set forth the nature of the adjustment.

5.2 Possible Acceleration on Change in Control. Notwithstanding the acceleration provisions of Section 2 hereof but subject to the limited exercise periods set forth therein, and further subject to the Company’s ability to terminate the Option as provided in Section 5.3 below, the outstanding and previously unvested portion of the Option shall become fully exercisable as of the date of the Grantee’s termination of employment as follows:

(a) if the Grantee is covered by a Change in Control Severance Arrangement at the time of the termination, if the termination of employment constitutes a “Qualifying Termination” (as such term, or any similar successor term, is defined in such Change in Control Severance Arrangement) that triggers the Grantee’s right to severance benefits under such Change in Control Severance Arrangement.

(b) if the Grantee is not covered by a Change in Control Severance Arrangement at the time of the termination and if the termination occurs either within the Protected Period corresponding to a Change in Control of the Company or within twenty-four (24) calendar months following the date of a Change in Control of the Company, the Grantee’s employment by the Company and its subsidiaries is involuntarily terminated by the Company and its subsidiaries for reasons other than Cause or by the Grantee for Good Reason.

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

5.3 Automatic Acceleration; Early Termination. If the Company undergoes a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to
continue and assume the Option following the Change in Control, or if for any other reason the Option would not continue after the Change in Control, then upon the Change in Control the outstanding and previously unvested portion of the Option shall vest fully and completely, any and all restrictions on exercisability or otherwise shall lapse, and it shall be fully exercisable. Unless the Committee expressly provides otherwise in the circumstances, no acceleration of vesting or exercisability of the Option shall occur pursuant to this Section 5.3 in connection with a Change in Control if either (a) the Company is the surviving entity, or (b) the successor to the Company (if any) (or a Parent thereof) agrees in writing prior to the Change in Control to assume the Option. If the Option is fully vested or becomes fully vested as provided in this Section 5.3 but is not exercised prior to a Change in Control triggered by clause (iii) or (iv) of the definition thereof and the Company is not the surviving entity and the successor to the Company (if any) (or a Parent thereof) does not agree in writing prior to the occurrence of the Change in Control to continue and assume the Option following the Change in Control, or if for any other reason the Option would not continue after the Change in Control, then the Committee may provide for the settlement in cash of the award (such settlement to be calculated as though the Option was exercised simultaneously with the Change in Control and based upon the then Fair Market Value of a share of Common Stock). The Option, if so settled by the Committee, shall automatically terminate. If, in such circumstances, the Committee does not provide for the cash settlement of the Option, then upon the Change in Control the Option shall terminate, subject to any provision that has been made by the Committee through a plan of reorganization or otherwise for the survival, substitution or exchange of the Option; provided that the Grantee shall be given reasonable notice of such intended termination and an opportunity to exercise the Option prior to or upon the Change in Control. The Committee may make adjustments pursuant to Section 6(a) of the Plan and/or deem an acceleration of vesting of the Option pursuant to this Section 5.3 to occur sufficiently prior to an event if necessary or deemed appropriate to permit the Grantee to realize the benefits intended to be conveyed with respect to the shares underlying the Option; provided, however, that, the Committee may reinstate the original terms of the Option if the related event does not actually occur. The provisions in this Section 5.3 for the early termination of the Option in connection with a Change in Control of the Company supercede any other provision hereof that would otherwise allow for a longer Option term.

6. Tax Matters

6.1 Tax Withholding. The Company or the subsidiary which employs the Grantee shall be entitled to require, as a condition of issuing shares upon exercise of the Option, that the Grantee or other person exercising the Option pay any sums required to be withheld by federal, state or local tax law with respect to such vesting or payment. Alternatively, the Company or such subsidiary, in its discretion, may make such provisions for the withholding of taxes as it deems appropriate (including, without limitation, withholding the taxes due from compensation otherwise payable to the Grantee or reducing the number of shares otherwise deliverable with respect to the Option (valued at their then Fair Market Value) by the amount necessary to satisfy such withholding obligations at the flat percentage rates applicable to supplemental wages).

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

7. Committee Authority

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

8. Plan; Amendment

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

9. Required Holding Period

The holding requirements of this Section 9 shall apply to any Grantee who is an elected or appointed officer of the Company on any date the Option is exercised (or, if earlier, on the date the Grantee’s employment by the Company and its subsidiaries terminates for any reason). Any Grantee subject to this Section 9 shall not be permitted to sell, transfer, anticipate, alienate, assign, pledge, encumber or charge 50% of the total number of shares of Common Stock the Grantee receives upon any exercise of the Option until the earlier of (A) the third anniversary of the date of exercise, or (B) the date of the Grantee’s death or Disability. Should the Grantee’s employment by the Company and its subsidiaries terminate (regardless of the reason for such termination, but other than due to the Grantee’s death or Disability), such holding period requirement shall not apply as to any shares acquired upon exercise of the Option to the extent the Option remains exercisable for more than one year after such termination of employment and such exercise actually occurs more than one year after such termination of employment. (For purposes of clarity, in such circumstances the holding period requirement will apply as to any shares acquired upon exercise of the Option within one year after such a termination of employment.) For purposes of this Section 9, the total number of shares of Common Stock the Grantee receives upon exercise shall be determined on a net basis after taking into account any shares otherwise deliverable with respect to the Option that the Company withholds (or that are sold through a broker in a cashless exercise of the Option, as the case may be) to satisfy the exercise price of the Option or tax obligations pursuant to Section 6.1. Any shares of Common Stock received in respect of the Option shall be subject to the same holding period requirements as the shares to which they relate.

10. Definitions

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

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

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

(i) The Grantee’s conviction for committing an act of fraud, embezzlement, theft, or other act constituting a felony (other than traffic related offenses or as a result of vicarious liability); or

(ii) The willful engaging by the Grantee in misconduct that is significantly injurious to the Company. However, no act, or failure to act, on the Grantee’s part shall be considered “willful” unless done, or omitted to be done, by the Grantee not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

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

“Change in Control Severance Arrangement” means a “Special Agreement” entered into by and between the Grantee and the Company that provides severance protections in the event of certain changes in control of the Company or the Company’s Change-in-Control Severance Plan, as each may be in effect from time to time, or any similar successor agreement or plan that provides severance protections in the event of a change in control of the Company.


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

“Disability” means disabled pursuant to the provisions of the Company’s (or one of its subsidiary’s) Long Term Disability Plan applicable to the Grantee; or, if the Grantee is not covered by such a Long Term Disability Plan, the incapacity of the Grantee, due to injury, illness, disease, or bodily or mental infirmity, to engage in the performance of substantially all of the usual duties of employment with the Company or the subsidiary which employs the Grantee, such disability to be determined by the Committee upon receipt and in reliance on competent medical advice from one or more individuals, selected by the Committee, who are qualified to give such professional medical advice.

“Early Retirement” means that the Grantee terminates employment after attaining age 55 with at
least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause) and other than a Normal Retirement. However, in the case of a Grantee who is an officer of the Company subject to the Company’s mandatory retirement at age 65 policy and who, at the applicable time, is not otherwise eligible for Early Retirement as defined in the preceding sentence or for Normal Retirement, “Early Retirement” as to that Grantee means that the Grantee’s employment is terminated pursuant to such mandatory retirement policy (regardless of the Grantee’s years of service and other than in connection with a termination by the Company or a subsidiary for cause).


“Fair Market Value” is used as defined in the Plan; provided, however, the Committee in determining such Fair Market Value for purposes of the Option may utilize such other exchange, market, or listing as it deems appropriate. For purposes of a cashless exercise, the Fair Market Value of the shares shall be the price at which the shares in payment of the exercise price are sold.

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

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

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

(ii) A reduction by the Company in the Grantee’s annualized rate of base salary as in effect on the Grant Date or as the same shall be increased from time to time.

(iii) A material reduction in the aggregate value of the Grantee’s level of participation in any of the Company’s short and/or long-term incentive compensation plans (excluding stock-based incentive compensation plans), employee benefit or retirement plans, or policies, practices, or arrangements in which the Grantee participates immediately prior to the start of the Protected Period provided; however, that a reduction in the aggregate value shall not be deemed to be “Good Reason” if the reduced value remains substantially consistent with the average level of other employees who have positions commensurate with the position held by the Grantee immediately prior to the start of the Protected Period.

(iv) A material reduction in the Grantee’s aggregate level of participation in the Company’s stock-based incentive compensation plans from the level in effect immediately prior to the start of the Protected Period; provided, however, that a reduction in the aggregate level of participation shall not be deemed to be “Good Reason” if the reduced level of participation remains
(v) The Grantee is informed by the Company that his or her principal place of employment for the Company will be relocated to a location that is greater than fifty (50) miles away from the Grantee’s principal place of employment for the Company at the start of the corresponding Protected Period; provided that, if the Company communicates an intended effective date for such relocation, in no event shall Good Reason exist pursuant to this clause (v) more than ninety (90) days before such intended effective date.

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

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

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

“Grant Date” means the date that the Committee approved the grant of the Option.

“Normal Retirement” means that the Grantee terminates employment after attaining age 65 with at least 10 years of service (other than in connection with a termination by the Company or a subsidiary for cause).

“Parent” is used as defined in the Plan.

“Plan” means the Huntington Ingalls Industries, Inc. 2011 Long-Term Incentive Stock Plan, as it may be amended from time to time.

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

(i) If the Change in Control is triggered by a tender offer for shares of the Company’s stock or by the offeror’s acquisition of shares pursuant to such a tender offer, the Protected Period shall commence on the date of the initial tender offer and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

(ii) If the Change in Control is triggered by a merger, consolidation, or reorganization of the Company with or involving any other corporation, the Protected Period shall commence on the date that serious and substantial discussions first take place to effect the merger, consolidation, or reorganization and shall continue through and including the date of the Change in Control; provided that in no case will the Protected Period commence earlier than the date that is six (6) months prior to the Change in Control.

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

“Successor” means the person acquiring a Grantee’s rights to a grant under the Plan by will or by the laws of descent or distribution.
March 21, 2011

Dear Northrop Grumman Stockholder:

I am pleased to inform you that on March 14, 2011, the board of directors of Northrop Grumman Corporation approved the spin-off of Huntington Ingalls Industries, Inc., a wholly owned subsidiary of Northrop Grumman. Upon completion of the spin-off, Northrop Grumman stockholders will own 100% of the outstanding shares of common stock of HII. At the time of the spin-off, HII will own and operate our shipbuilding business, which has been designing, building, overhauling and repairing a wide variety of ships primarily for the U.S. Navy and the U.S. Coast Guard for over a century. We believe that this separation of HII to form a new, independent, publicly owned company is in the best interests of both Northrop Grumman and HII.

The spin-off will be completed by way of a pro rata distribution of HII common stock to our stockholders of record as of 5:00 p.m., Eastern time, on March 30, 2011, the spin-off record date. Each Northrop Grumman stockholder will receive one share of HII common stock for every six shares of Northrop Grumman common stock held by such stockholder on the record date. The distribution of these shares will be made in book-entry form, which means that no physical share certificates will be issued. Following the spin-off, stockholders may request that their shares of HII common stock be transferred to a brokerage or other account at any time. No fractional shares of HII common stock will be issued. If you would otherwise have been entitled to a fractional common share in the distribution, you will receive the net cash proceeds of such fractional share instead.

The spin-off is subject to certain customary conditions. Stockholder approval of the distribution is not required, nor are you required to take any action to receive your shares of HII common stock.

Immediately following the spin-off, you will own common stock in Northrop Grumman and HII. Northrop Grumman’s common stock will continue to trade on the New York Stock Exchange under the symbol “NOC.” HII intends to have its common stock listed on the New York Stock Exchange under the symbol “HII.”

We expect the spin-off to be tax-free to the stockholders of Northrop Grumman, except with respect to any cash received in lieu of fractional shares.

The enclosed information statement, which is being mailed to all Northrop Grumman stockholders, describes the spin-off in detail and contains important information about HII, including its historical consolidated financial statements. We urge you to read this information statement carefully.

I want to thank you for your continued support of Northrop Grumman. We look forward to your support of HII in the future.

Yours sincerely,

Wesley G. Bush
Chief Executive Officer and President
Northrop Grumman
March 21, 2011

Dear Huntington Ingalls Industries, Inc. Stockholder:

It is our pleasure to welcome you as a stockholder of our company, Huntington Ingalls Industries, Inc. We design, build and maintain nuclear and non-nuclear ships for the U.S. Navy and Coast Guard, and provide aftermarket services for military ships around the globe. For more than a century, we have been building more ships, in more ship classes, than any other U.S. naval shipbuilder.

As an independent, publicly owned company, we believe we can more effectively focus on our objectives and satisfy the capital needs of our company, and thus bring more value to you as a stockholder than we could as an operating segment of Northrop Grumman Corporation.

We expect to have HII common stock listed on the New York Stock Exchange under the symbol “HII” in connection with the distribution of HII common stock by Northrop Grumman.

We invite you to learn more about HII and our subsidiaries by reviewing the enclosed information statement. We look forward to our future as an independent, publicly owned company and to your support as a holder of HII common stock.

Very truly yours,

C. Michael Petters
President and Chief Executive Officer
Huntington Ingalls Industries, Inc.
This information statement is being sent to you in connection with the separation of Huntington Ingalls Industries, Inc. ("HII") from Northrop Grumman Corporation ("Northrop Grumman"), following which HII will be an independent, publicly owned company. As part of the separation, Northrop Grumman will undergo an internal reorganization, after which it will complete the separation by distributing all of the shares of HII common stock on a pro rata basis to the holders of Northrop Grumman common stock. We refer to this pro rata distribution as the “distribution” and we refer to the separation, including the internal reorganization and distribution, as the “spin-off.”

We expect that the spin-off will be tax-free to Northrop Grumman stockholders for U.S. Federal income tax purposes, except to the extent of cash received in lieu of fractional shares. Every six shares of Northrop Grumman common stock outstanding as of 5:00 p.m., Eastern time, on March 30, 2011, the record date for the distribution, will entitle the holder thereof to receive one share of HII common stock. The distribution of shares will be made in book-entry form. Northrop Grumman will not distribute any fractional shares of HII common stock. Instead, the distribution agent will aggregate fractional shares into whole shares, sell the whole shares in the open market at prevailing market prices and distribute the aggregate net cash proceeds from the sales pro rata to each holder who would otherwise have been entitled to receive a fractional share in the spin-off. The distribution will be effective as of 12:01 a.m., Eastern time, on March 31, 2011. Immediately after the distribution becomes effective, we will be an independent, publicly owned company.

No vote or further action of Northrop Grumman stockholders is required in connection with the spin-off. We are not asking you for a proxy. Northrop Grumman stockholders will not be required to pay any consideration for the shares of HII common stock they receive in the spin-off, and they will not be required to surrender or exchange shares of their Northrop Grumman common stock or take any other action in connection with the spin-off.

All of the outstanding shares of HII common stock are currently owned by Northrop Grumman. Accordingly, there is no current trading market for HII common stock. We expect, however, that a limited trading market for HII common stock, commonly known as a “when-issued” trading market, will develop at least two trading days prior to the record date for the distribution, and we expect “regular-way” trading of HII common stock will begin the first trading day after the distribution date. We intend to list HII common stock on the New York Stock Exchange under the ticker symbol “HII.”

In reviewing this information statement, you should carefully consider the matters described in “Risk Factors” beginning on page 22 of this information statement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this information statement is truthful or complete. Any representation to the contrary is a criminal offense.

This information statement is not an offer to sell, or a solicitation of an offer to buy, any securities.

The date of this information statement is March 18, 2011.

This Information Statement was first mailed to Northrop Grumman stockholders on or about March 21, 2011.
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## SUMMARY

This summary highlights information contained in this information statement and provides an overview of our company, our separation from Northrop Grumman and the distribution of HII common stock by Northrop Grumman to its stockholders. For a more complete understanding of our business and the spin-off, you should read the entire information statement carefully, particularly the discussion set forth under “Risk Factors” beginning on page 22 of this information statement, and our audited and unaudited historical consolidated financial statements, our unaudited pro forma condensed consolidated financial statements and the respective notes to those statements appearing elsewhere in this information statement.

Except as otherwise indicated or unless the context otherwise requires, “HII,” “we,” “us” and “our” refer to Huntington Ingalls Industries, Inc. and the entities that will be its consolidated subsidiaries following the internal reorganization. HII was formed in anticipation of the spin-off as a holding company for our business, which has been conducted by Northrop Grumman Shipbuilding, Inc. (“NGSB”). NGSB will be a wholly owned subsidiary of HII following the internal reorganization. In connection with the spin-off, NGSB intends to change its name to “Huntington Ingalls Industries Company.” Except as otherwise indicated or unless the context otherwise requires, the information included in this information statement assumes the completion of the internal reorganization preceding the distribution, as described herein.

For convenience, brief descriptions of certain programs discussed in this information statement are included in the “Glossary of Programs” beginning on page 18.

Unless otherwise indicated, references in this information statement to fiscal years are to HII’s fiscal years ended December 31.

## Our Company

For more than a century, we have been designing, building, overhauling and repairing ships primarily for the U.S. Navy and the U.S. Coast Guard. We are the nation’s sole industrial designer, builder and refueler of nuclear-powered aircraft carriers, the sole supplier and builder of amphibious assault and expeditionary warfare ships to the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy and one of only two companies that builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers. We build more ships, in more ship types and classes, than any other U.S. naval shipbuilder. We are the exclusive provider of RCOH (Refueling and Complex Overhaul) services for nuclear-powered aircraft carriers, a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. With our product capabilities, heavy industrial facilities and a workforce of approximately 39,000 shipbuilders, we believe we are poised to continue to support the long-term objectives of the U.S. Navy to adapt and respond to a complex, uncertain and rapidly changing national security environment.

Our primary areas of business include the design, construction, repair and maintenance of nuclear-powered ships, such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants, expeditionary warfare/amphibious assault and coastal defense surface ships, as well as the overhaul and refueling of nuclear-powered ships. We manage our business in two segments: Newport News, which includes all of our nuclear ship design, construction, overhaul and refueling businesses; and Gulf Coast, which includes our non-nuclear ship design, construction, repair and maintenance businesses.

Our three major shipyards are currently located in Newport News, Virginia, Pascagoula, Mississippi and Avondale, Louisiana. We currently intend to wind down our construction activities at our Avondale shipyard in 2013 and consolidate Gulf Coast construction into our Mississippi facilities. We believe that consolidation in Pascagoula would allow us to realize the benefits of serial production, reduce program costs on existing contracts and make future vessels more affordable, thereby reducing overhead rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time. We anticipate that we will incur substantial restructuring-related costs and asset write-downs currently estimated at $310 million.
related to the wind down of our construction activities at Avondale, substantially all of which we believe is recoverable. For a more detailed discussion of these expected costs, see “Risk Factors” beginning on page 22.

Competitive Strengths

We believe that we have the following key competitive strengths:

• *We are one of the two largest publicly owned shipbuilders in the United States.* We and our primary competitor are the builders of 232 of the U.S. Navy’s current 286 ships, and the exclusive builders of 16 of the U.S. Navy’s 29 classes of ships (seven classes for which we are the exclusive builder, and four classes for which we are co-builders with our primary competitor). We build more ships, in more types and classes, than any other U.S. naval shipbuilder and we are the exclusive builder of 33 of the U.S. Navy’s 286 ships, representing seven of the U.S. Navy’s 29 classes of ships. We are the sole builder and refueler of nuclear-powered aircraft carriers, the sole supplier of amphibious assault and expeditionary warfare ships for the U.S. Navy, and the sole provider of the National Security Cutter to the U.S. Coast Guard. We are also teamed with Electric Boat as the sole builders of nuclear-powered submarines for the U.S. Navy. Additionally, we are a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy.

• *We have long-term contracts with visible revenue streams and highly probable backlog based on the U.S. Navy’s 30-Year Plan.* Most of our contracts are long-term in nature with visible revenue streams. Total backlog at December 31, 2010 was approximately $17 billion. At the end of 2010, total orders from the U.S. Government comprised substantially all of the total backlog. In connection with ships that we have constructed, we expect to continue our regular service and support, including RCOH of aircraft carriers and inactivation of aging nuclear aircraft carriers.

• *We generate a significant amount of our revenue from contracts for classes of ships for which we are the exclusive provider.* We are the exclusive provider of seven of the U.S. Navy’s 29 classes of ships, and a significant amount of our revenue is from contracts for these classes of ships. Collectively, contracts for ship classes for which we are the exclusive provider accounted for 64% and 68% of our revenues in 2009 and 2010, respectively.

• *We are capable of manufacturing multiple classes of ships at our heavy industrial facilities.* Our Newport News and Pascagoula shipyards possess heavy industrial assets and are capable of manufacturing multiple ship types and classes. The Newport News shipyard, which is able to simultaneously construct in staggered phases two nuclear aircraft carriers and five nuclear submarines, provide refueling and overhaul services for up to two additional aircraft carriers, and provide maintenance and repair services for additional ships, has an 18-acre all weather onsite steel fabrication workshop, a modular outfitting facility for assembly of a ship’s basic structural modules indoors and on land, machine shops totaling approximately 300,000 square feet, a 1,050-ton gantry crane capable of servicing two aircraft carriers at one time, and a 2,170 foot long drydock. Our Pascagoula shipyard, which is able to simultaneously build several classes of ships for both the U.S. Navy and the U.S. Coast Guard, includes a 30,000-ton floating dry dock, 660-ton gantry crane, a steel fabrication shop with capacity to process 150 tons of steel per day, covered outfitting and stacking halls capable of handling three-deck height grand blocks, and a propulsion assembly building that can hold up to fifteen 30,000 horsepower engines simultaneously.

• *We have an experienced management team.* Our senior management team has experience in the management of defense and shipbuilding companies and is competent in the areas of project management, supply chain management and technology management.

• *We have a workforce of approximately 39,000 shipbuilders.* Our workforce includes individuals specializing in 19 crafts and trades, including more than 7,500 engineers and designers and more than 1,000 employees with advanced degrees. Additionally, our workforce is composed of many third-, fourth- and fifth-generation shipbuilding employees. At December 31, 2010, we had 771 Master Shipbuilders, employees who have been with us or our predecessors for over 40 years. We provide ongoing training for
all of our employees, providing over 60,000 individual training seats in 2009 and 64,000 in 2010 across our Newport News and Gulf Coast operations.

Our Strategy

Our objectives are to maintain our leadership position in the U.S. naval shipbuilding industry and to deliver long-term value to our stockholders. To achieve these objectives, we utilize the following strategies:

Strengthen and protect market position.

- **Align our business to support the U.S. Navy’s 30-Year Plan.** We intend to continue to support the U.S. Navy in the design and construction of new ships, including the construction of an aircraft carrier and an amphibious assault ship approximately every five years, the restart of construction of DDG-51s and the increase in production rates of VCS to two submarines per year. Through investments in our workforce, processes and facilities, and through the streamlining of our operations, we intend to support continued construction of these core U.S. Navy programs, ensure quality construction and make ships more affordable.

- **Ensure capabilities that support new U.S. Navy requirements.** Through alignment with the U.S. Navy’s requirements in the 30-Year Plan, we intend to position ourselves as the provider of choice for new platforms and services related to our current core markets. We intend to complete construction of a new facility at our Newport News shipyard designed specifically for aircraft carrier inactivations, to better position ourselves to be the U.S. Navy’s choice for future aircraft carrier inactivations. We have also deployed our design and engineering talents and capabilities to support work as a subcontractor on the design of the SSBN (X) replacement for the aging Ohio-class ballistic missile submarines, and we also intend to position ourselves as the builder of choice for the LSD(X), the next class of amphibious assault ship expected to be built as a follow-on to the LPD-17 and LHA-6 classes of ships, for which we are currently the exclusive supplier.

- **Streamline our operations and footprint to deliver more affordable ships.** We intend to monitor our operations to determine where strategic investments or consolidation may be necessary to allow us to provide the U.S. Navy with the highest quality, most technologically advanced ships possible, on a cost-effective basis. For example, we expect to wind down our construction activities at the Avondale shipyard in 2013 and intend to consolidate our Gulf Coast operations and footprint to shift all future Gulf Coast ship construction work to our Pascagoula and Gulfport facilities in Mississippi. With this consolidation, we believe that we are ensuring the long-term viability of our Gulf Coast operations by making them more cost competitive through increased throughput, continuity of production, single learning curves and workload efficiency gains. We also expect that this consolidation may reduce program costs on some existing contracts and make future vessels more affordable for the U.S. Navy and the U.S. Coast Guard.

Execute well on all contracts.

- **Improve performance in our Gulf Coast operations.** Our Gulf Coast operations have recently implemented a new management approach that is geared toward planning and managing our work in discrete phases to drive performance, accountability and predictability (the “Gulf Coast Operating System”). Through the Gulf Coast Operating System, we believe program managers will be better able to confirm that a ship is adhering to our newly developed standardized performance metrics, and to assure that we are providing a quality product in a safe, timely and cost-effective manner. We intend to continue to utilize the Gulf Coast Operating System across the spectrum of our ships to improve both quality and efficiency of our building processes in all aspects of our design and construction activities, bringing together our shipbuilders. See “Business-Our Business-Gulf Coast.”

- **Capture the benefits of serial production.** We intend to seek opportunities to maximize the quality and affordability of our ships through serial production, while ensuring that we undertake “first-in-class” (first ships to be built in their class) construction where such construction is expected to lead to additional serial production.
• Deliver quality products on contract targets. We are focused on delivering quality products on contract schedule and cost targets for all current contracts, which we believe will protect our position in our industry and enhance our efforts to secure future contracts. We believe we must adhere to schedule and cost commitments and quality expectations on our current U.S. Navy contracts. Specifically, we must execute on our human capital strategy, create and sustain a first-time quality culture and capitalize on our supply chain management initiatives.

Other Information

Huntington Ingalls Industries, Inc. was incorporated in Delaware on August 4, 2010. Our principal executive offices are located at 4101 Washington Avenue, Newport News, Virginia 23607. Our telephone number is (757) 380-2000. Our website address is www.huntingtingalls.com. Information contained on, or connected to, our website or Northrop Grumman’s website does not and will not constitute part of this information statement or the registration statement on Form 10 of which this information statement is part.

The Spin-Off

Overview

On March 14, 2011, Northrop Grumman approved the spin-off of HII from Northrop Grumman, following which HII will be an independent, publicly owned company.

Before our spin-off from Northrop Grumman, we will enter into a Separation and Distribution Agreement and several other agreements with Northrop Grumman related to the spin-off. These agreements will govern the relationship between us and Northrop Grumman after completion of the spin-off and provide for the allocation between us and Northrop Grumman of various assets, liabilities and obligations (including employee benefits, intellectual property, information technology, insurance and tax-related assets and liabilities). See “Certain Relationships and Related Party Transactions-Agreements with Northrop Grumman Related to the Spin-Off.” Additionally, we have (i) incurred debt in an amount of $1,200 million from third parties (the “HII Debt”) and (ii) entered into a credit facility with third-party lenders in an amount of $1,225 million, (the “HII Credit Facility”), which includes a $575 million secured term loan expected to be funded in connection with the internal reorganization, and a $650 million secured revolving credit facility, of which approximately $137 million of letters of credit are expected to be issued but undrawn at the time of the spin-off, and the remaining $513 million of which will be unutilized at that time. See “Description of Material Indebtedness.” The proceeds of the HII Debt and the HII Credit Facility are to be used to fund a cash transfer in an amount of $1,429 million (the “Contribution”) to Northrop Grumman Systems Corporation (“NGSC”), the primary operating subsidiary of Northrop Grumman after completion of the spin-off, and for general corporate purposes in an amount of $300 million.

The distribution of HII common stock as described in this information statement is subject to the satisfaction or waiver of certain conditions. In addition, Northrop Grumman has the right not to complete the spin-off if, at any time prior to the distribution, the board of directors of Northrop Grumman determines, in its sole discretion, that the spin-off is not in the best interests of Northrop Grumman or its stockholders, that a sale or other alternative is in the best interests of Northrop Grumman or its stockholders or that it is not advisable for HII to separate from Northrop Grumman. See “The Spin-Off-Conditions to the Spin-Off.”

Questions and Answers About the Spin-Off

The following provides only a summary of the terms of the spin-off. For a more detailed description of the matters described below, see “The Spin-Off.”

Q: What is the spin-off?
A: The spin-off is the series of transactions by which HII will separate from Northrop Grumman. To complete the spin-off, Northrop Grumman will distribute to its stockholders all of the shares of HII common stock. We refer to this as the distribution. Following the spin-off, HII will be a separate company from Northrop Grumman,
and Northrop Grumman will not retain any ownership interest in HII. The number of shares of Northrop Grumman common stock you own will not change as a result of the spin-off.

Q: What will I receive in the spin-off?
A: As a holder of Northrop Grumman stock, you will retain your Northrop Grumman shares and will receive one share of HII common stock for every six shares of Northrop Grumman common stock you own as of the record date. Your proportionate interest in Northrop Grumman will not change as a result of the spin-off. For a more detailed description, see “The Spin-Off.”

Q: What is HII?
A: HII is currently an indirect, wholly owned subsidiary of Northrop Grumman whose shares will be distributed to Northrop Grumman stockholders if the spin-off is completed. After the spin-off is completed, HII will be a public company and will own all of the shipbuilding business of Northrop Grumman. That business is referred to as the “shipbuilding business” throughout this information statement.

Q: What are the reasons for and benefits of separating HII from Northrop Grumman?
A: Northrop Grumman believes that a spin-off will provide various benefits including: (i) greater strategic focus of investment resources and management efforts, (ii) tailored customer focus, (iii) direct and differentiated access to capital markets and (iv) enhanced investor choices. Northrop Grumman believes that separating HII from Northrop Grumman will benefit both Northrop Grumman and the shipbuilding business by better aligning management’s attention and investment resources to pursue opportunities in their respective markets and more actively manage their cost structures.

Northrop Grumman believes its portfolio of C4ISR systems and electronics, manned and unmanned air and space platforms, cybersecurity and related system-level applications and logistics is strategically aligned with its customers’ emerging security priorities. Operational and investment synergies exist within and between these areas of its portfolio, which comprise its aerospace, electronics, information systems and technical services sectors. Northrop Grumman management sees little future synergy between these businesses and its shipbuilding business.

Additionally, the shipbuilding business is a mature business that is more capital-intensive than most of Northrop Grumman’s other businesses, with longer periods of performance. Northrop Grumman’s management believes that its shipbuilding business, on one hand, and its other businesses, on the other hand, require inherently different strategies in order to maximize their long-term value. Northrop Grumman believes that a separation will allow each entity to pursue appropriate strategies that will increase investor choice between the businesses, allow for differentiated access to capital and allow for the creation of long-term value for shareholders. For a more detailed discussion of the reasons for the spin-off see “The Spin-Off-Reasons for the Spin-Off.”

Q: Why is the separation of HII structured as a spin-off as opposed to a sale?
A: Northrop Grumman believes a spin-off is the most efficient way to accomplish a separation of shipbuilding for reasons including: (i) a spin-off would be a tax-free distribution of HII common stock to shareholders; (ii) a spin-off offers a higher degree of certainty of completion in a timely manner, lessening disruption to current shipbuilding operations; and (iii) a spin-off provides greater assurance that decisions regarding HII’s capital structure support future financial stability. After consideration of strategic alternatives, including a sale, Northrop Grumman believes that a tax-free spin-off will enhance the long-term value of both Northrop Grumman and HII. For a more detailed discussion of the reasons for the spin-off see “The Spin-Off-Reasons for the Spin-Off.”

Q: What is being distributed in the spin-off?
A: Approximately 48.8 million shares of HII common stock will be distributed in the spin-off, based on the number of shares of Northrop Grumman common stock expected to be outstanding as of the record date. The actual number of shares of HII common stock to be distributed will be calculated on March 30, 2011, the record date. The shares of HII common stock to be distributed by Northrop Grumman will constitute all of the issued and outstanding shares of HII common stock immediately prior to the distribution. For more
Q: How will options and stock held by HII employees be affected as a result of the spin-off?
A: At the time of the distribution, the exercise price of and number of shares subject to any outstanding option to purchase Northrop Grumman stock, as well as the number of shares subject to any restricted stock right or other Northrop Grumman equity award, held by HII’s current and former employees on the distribution date will be adjusted to reflect the value of the distribution such that the intrinsic value of such awards at the time of separation is held constant. In addition, existing performance criteria applicable to HII awards will be modified appropriately to reflect the spin-off.

Additionally, HII’s current and former employees who hold shares of Northrop Grumman common stock in their applicable 401(k) Plan account as of the record date for the distribution will, like all stockholders, receive shares of HII common stock in the distribution. On the distribution date, one share of HII common stock, based on the distribution ratio for every six shares of Northrop Grumman common stock held in such employee’s Northrop Grumman stock fund account, will be included in a HII stock fund account under the HII 401(k) Plan. However, in conformity with the fiduciary responsibility requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”), remaining shares of the Northrop Grumman common stock held in HII’s employees’ Northrop Grumman stock fund accounts following the distribution will be disposed of and allocated to another investment alternative available under the HII 401(k) Plan as directed by participants until such date as shall be determined by the Investment Committee, after which date the Investment Committee shall dispose of all remaining shares and invest the proceeds in another investment alternative to be determined by the Investment Committee (but this will not prohibit diversified, collectively managed investment alternatives available under the HII 401(k) Plan from holding Northrop Grumman common stock or prohibit employees who use self-directed accounts in the HII 401(k) Plan from investing their accounts in Northrop Grumman common stock).

Q: When is the record date for the distribution?
A: The record date will be the close of business of the New York Stock Exchange (the “NYSE”) on March 30, 2011.

Q: When will the distribution occur?
A: The distribution date of the spin-off is March 31, 2011. HII expects that it will take the distribution agent, acting on behalf of Northrop Grumman, up to two weeks after the distribution date to fully distribute the shares of HII common stock to Northrop Grumman stockholders. The ability to trade HII shares will not be affected during that time.

Q: What do I have to do to participate in the spin-off?
A: You are not required to take any action, although you are urged to read this entire document carefully. No stockholder approval of the distribution is required or sought. You are not being asked for a proxy. No action is
required on your part to receive your shares of HII common stock. You will neither be required to pay anything for the new shares nor to surrender any shares of Northrop Grumman common stock to participate in the spin-off.

**Q:** How will fractional shares be treated in the spin-off?

**A:** Fractional shares of HII common stock will not be distributed. Fractional shares of HII common stock to which Northrop Grumman stockholders of record would otherwise be entitled will be aggregated and sold in the public market by the distribution agent at prevailing market prices. The aggregate net cash proceeds of the sales will be distributed ratably to those stockholders who would otherwise have received fractional shares of HII common stock. See “The Spin-Off-Treatment of Fractional Shares” for a more detailed explanation. Proceeds from those sales will generally result in a taxable gain or loss to those stockholders. Each stockholder entitled to receive cash proceeds from those shares should consult his, her or its own tax advisor as to such stockholder’s particular circumstances. The tax consequences of the distribution are described in more detail under “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.”

**Q:** What are the U.S. Federal income tax consequences of the spin-off?

**A:** The spin-off is conditioned on the receipt by Northrop Grumman of an initial and any supplemental ruling (collectively, the “IRS Ruling”) from the Internal Revenue Service (“IRS”), which Northrop Grumman has received, and an opinion from its tax counsel that, for U.S. Federal income tax purposes, the distribution will be tax-free to Northrop Grumman, Northrop Grumman’s stockholders and HII under Section 355 and related provisions of the Internal Revenue Code of 1986 (the “Code”), except for cash payments made to stockholders in lieu of fractional shares such stockholders would otherwise receive in the distribution. The tax consequences of the distribution are described in more detail under “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.”

**Q:** Will the HII common stock be listed on a stock exchange?

**A:** Yes. Although there is not currently a public market for HII common stock, before completion of the spin-off, HII intends to apply to list its common stock on the NYSE under the symbol “HII.” It is anticipated that trading of HII common stock will commence on a “when-issued” basis at least two trading days prior to the record date. When-issued trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. When-issued trades generally settle within four trading days after the distribution date. On the first trading day following the distribution date, any when-issued trading with respect to HII common stock will end and “regular-way” trading will begin. “Regular-way” trading refers to trading after a security has been issued and typically involves a transaction that settles on the third full trading day following the date of the transaction. See “Trading Market.”

**Q:** Will my shares of Northrop Grumman common stock continue to trade?

**A:** Yes. Northrop Grumman common stock will continue to be listed and trade on the NYSE under the symbol “NOC.”

**Q:** If I sell, on or before the distribution date, shares of Northrop Grumman common stock that I held on the record date, am I still entitled to receive shares of HII common stock distributable with respect to the shares of Northrop Grumman common stock I sold?

**A:** Beginning on or shortly before the record date and continuing through the distribution date for the spin-off, Northrop Grumman’s common stock will begin to trade in two markets on the NYSE: a “regular-way” market and an “ex-distribution” market. If you are a holder of record of shares of Northrop Grumman common stock as of the record date for the distribution and choose to sell those shares in the regular-way market after the record date for the distribution and before the distribution date, you will also be selling the right to receive the shares of HII common stock in connection with the spin-off. However, if you are a holder of record of shares of Northrop Grumman common stock as of the record date for the distribution and choose to sell those shares in the ex-distribution market after the record date for the distribution and before the distribution date, you will still receive the shares of HII common stock in the spin-off.
Q: Will the spin-off affect the trading price of my Northrop Grumman stock?
A: Yes, the trading price of shares of Northrop Grumman common stock immediately following the distribution is expected to be lower than immediately prior to the distribution because its trading price will no longer reflect the value of the shipbuilding business. However, we cannot provide you with any assurance as to the price at which the Northrop Grumman shares will trade following the spin-off.

Q: What is the Contribution?
A: As part of the internal reorganization, we will transfer $1,429 million of the proceeds of the HII Debt and the HII Credit Facility to NGSC in order to eliminate intercompany notes between Northrop Grumman entities and NGSB (including one such note that was recently established in connection with the funds that we borrowed from NGSC to finance the tender offer for the 4.55% Gulf Opportunity Zone Industrial Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project) Series 2006 due 2028 (the “GO Zone IRBs”)) and to provide Northrop Grumman with additional funds to partially offset the loss of future cash flows that it would likely have realized if not for the spin-off transaction.

Q: What indebtedness will HII have following the spin-off?
A: HII has (i) incurred the HII Debt in an amount of $1,200 million and (ii) entered into the HII Credit Facility in an amount of $1,225 million ($575 million of which is a secured term loan expected be funded in connection with the internal reorganization, and $650 million of which is a secured revolving credit facility, of which approximately $137 million of letters of credit are expected to be issued but undrawn at the time of the spin-off, and the remaining $513 million of which will be unutilized at that time). The proceeds of the HII Debt and the HII Credit Facility are to be used to fund the $1,429 million Contribution and for general corporate purposes in the amount of $300 million. Following the spin-off, we will also continue to have $83.7 million of indebtedness under a loan agreement with the Mississippi Business Finance Corporation (the “MBFC”) in connection with the MBFC’s issuance of $83.7 million of 7.81% Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A due 2024 (the “Revenue Bonds”). While NGSB will continue to guarantee the Revenue Bonds, we intend to indemnify NGSC for any losses related to the guaranty. Additionally, following the spin-off we will continue to have $21.6 million of indebtedness under a loan agreement with the MBFC in connection with the MBFC’s issuance of $200 million of the GO Zone IRBs, which will continue to be guaranteed by Current NGC, the holding company currently named Northrop Grumman Corporation that, after the spin-off, will be our wholly owned subsidiary (“Current NGC”). In connection with the potential spin-off, NGSB on November 1, 2010, launched a tender offer to purchase any and all GO Zone IRBs at par. As a result, NGSB purchased $78.4 million in principal amount of the GO Zone IRBs and $21.6 million remain outstanding. Outstanding Northrop Grumman debt will remain with New P, Inc., which (a) is currently a subsidiary of Northrop Grumman, and (b) after the internal reorganization, will be renamed “Northrop Grumman Corporation” and will be the holding company that distributes the shares of HII to complete the spin-off (“New NGC”).

Q: What will the relationship be between Northrop Grumman and HII after the spin-off?
A: Following the spin-off, HII will be an independent, publicly owned company and Northrop Grumman will have no continuing stock ownership interest in HII. HII will have entered into a Separation and Distribution Agreement and several other agreements with Northrop Grumman for the purpose of allocating between HII and Northrop Grumman various assets, liabilities and obligations (including employee benefits, intellectual property, insurance and tax-related assets and liabilities). These agreements will also govern HII’s relationship with Northrop Grumman following the spin-off and will provide arrangements for employee matters, tax matters, intellectual property matters, insurance matters and some other liabilities and obligations attributable to periods before and, in some cases, after the spin-off. These agreements will also include arrangements with respect to transitional services. The Separation and Distribution Agreement will provide that HII will indemnify Northrop Grumman against any and all liabilities arising out of HII’s business, and that Northrop Grumman will indemnify HII against any and all liabilities arising out of Northrop Grumman’s non-shipbuilding business.
Q: What will HII’s dividend policy be after the spin-off?

A: HII does not currently intend to pay a dividend. Going forward, HII’s dividend policy will be established by the HII board of directors based on HII’s financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that HII’s board of directors considers relevant. In addition, the terms of the agreements governing HII’s new debt or debt that we may incur in the future may limit or prohibit the payments of dividends. For more information, see “Dividend Policy.”

Q: What are the anti-takeover effects of the spin-off?

A: Some provisions of the Restated Certificate of Incorporation of HII (the “Restated Certificate of Incorporation”) and the Restated Bylaws of HII (the “Restated Bylaws”), Delaware law and possibly the agreements governing HII’s new debt, as each will be in effect immediately following the spin-off, may have the effect of making more difficult an acquisition of control of HII in a transaction not approved by HII’s board of directors. In addition, under tax sharing arrangements, HII will agree not to enter into any transaction involving an acquisition (including issuance) of HII common stock or any other transaction (or, to the extent HII has the right to prohibit it, to permit any such transaction) that could reasonably be expected to cause the distribution or any of the internal reorganization transactions to be taxable to Northrop Grumman. HII will also agree to indemnify Northrop Grumman for any tax liabilities resulting from any such transactions. The amount of any such indemnification could be substantial. Generally, Northrop Grumman will recognize taxable gain on the distribution if there are one or more acquisitions (including issuances) of HII capital stock representing 50% or more of HII’s then-outstanding stock, measured by vote or value, and the acquisitions are deemed to be part of a plan or series of related transactions that include the distribution. Any such acquisition of HII common stock within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless we can rebut that presumption.

Under the Separation and Distribution Agreement, in the event that, prior to the fifth anniversary of the distribution, we experience a change of control and our corporate rating is downgraded to B or B2 or below, as applicable, during the period beginning upon the announcement of such change of control and ending 60 days after the announcement of the consummation of such change of control, we will be required to provide credit support for our indemnity obligations under the Separation and Distribution Agreement in the form of one or more standby letters of credit in an amount equal to $250 million. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Separation and Distribution Agreement.”

Additionally, we intend to enter into a Guaranty Performance, Indemnity and Termination Agreement with NGSC (the “Guaranty Performance Agreement”), pursuant to which, among other things, we will agree to cause NGSC’s guarantee obligations under the $83.7 million Revenue Bonds, which were issued for our benefit, to terminate or cause credit support to be provided in the event we experience a change of control. For any period of time between a change of control and the termination of NGSC’s guarantee obligations, we will be required to cause credit support to be provided for NGSC’s guarantee obligations in the form of one or more letters of credit in an amount reasonably satisfactory to NGSC to support the payment of all principal, interest and any premiums under the Revenue Bonds. For a description of the Guaranty Performance Agreement, see “Certain Relationships and Related Party Transactions—Other Agreements.”

As a result, HII’s obligations may discourage, delay or prevent a change of control of HII.

Q: What are the risks associated with the spin-off?

A: There are a number of risks associated with the spin-off and ownership of HII common stock. These risks are discussed under “Risk Factors” beginning on page 22.

Q: How will the spin-off affect HII’s relationship with its customers?

A: We believe we have well-established relationships with our principal customers. We believe the spin-off will enable us better to focus on those customers and to align our resources with their priorities. As we seek to enter
into new contracts with our customers, we expect to continue to provide information to enable them to have ongoing confidence in our management, our workforce and our ability to perform, including our financial stability.

Under federal acquisition regulations, the government commonly makes affirmative responsibility determinations before entering into new contracts with a contractor. In so doing, the government considers various factors, including financial resources, performance record, technical skills and facilities. Our customers and prospective customers will consider whether our responsibility on a stand-alone basis satisfies their requirements for entering into new contracts with us. The U.S. Navy has completed its determination of contractor responsibility with respect to certain shipbuilding contracts that are currently in negotiation and has found us to be a responsible contractor for those contracts. We believe we are and will continue to be a responsible contractor. Nonetheless, if, in the future, our customers or prospective customers are not satisfied with our responsibility, including our financial resources, it could likely affect our ability to bid for and obtain or retain projects, which, if unresolved, could have a material adverse effect on our financial position, results of operations or cash flows. See “Risk Factors—Risks Relating to the Spin-Off—Our customers and prospective customers will consider whether our responsibility on a stand-alone basis satisfies their requirements for entering into new contracts with us.”

Q: Where can I get more information?

A. If you have any questions relating to the mechanics of the distribution, you should contact the distribution agent at:

Computershare Trust Company, N.A.
250 Royall Street
Canton, Massachusetts 02021
Phone: (877) 498-8861

Before the spin-off, if you have any questions relating to the spin-off, you should contact Northrop Grumman at:

Northrop Grumman Corporation
Investor Relations
1840 Century Park East
Los Angeles, California 90067
Phone: (310) 201-1634
Email: investors@ngc.com
www.northropgrumman.com

After the spin-off, if you have any questions relating to HII, you should contact HII at:

Huntington Ingalls Industries, Inc.
Investor Relations
4101 Washington Avenue
Newport News, Virginia 23607
Phone: (757) 688-5572
Email: andy.green@hii-co.com
www.huntingtingalls.com
The diagram below shows the current structure of Northrop Grumman:

![Current NGC Structure Diagram]

The diagram below shows the structure of Northrop Grumman after completion of the internal reorganization:

![New NGC Structure Diagram]

The diagram below shows the structure of Northrop Grumman and HII immediately after completion of the spin-off:

![Spin-off Structure Diagram]

- Except as otherwise indicated or unless the context otherwise requires, “HII,” “we,” “us” and “our” refers to Huntington Ingalls Industries, Inc. and its consolidated subsidiaries, after giving effect to the internal reorganization.
- “NGSB” refers to Northrop Grumman Shipbuilding, Inc., which currently operates Northrop Grumman’s shipbuilding business. In connection with the spin-off, NGSB intends to change its name to “Huntington Ingalls Industries Company”
- “NGSC” refers to Northrop Grumman Systems Corporation, which operates Northrop Grumman’s non-shipbuilding businesses.
- “Current NGC” refers to (a) the current holding company, named Northrop Grumman Corporation, and its consolidated subsidiaries prior to the spin-off and (b) to Titan II Inc. after the spin-off.
- “New NGC” refers to New P, Inc., which (a) is currently a subsidiary of Northrop Grumman, and (b) after the internal reorganization, will be renamed “Northrop Grumman Corporation” and will be the holding company that distributes the shares of HII to complete the spin-off.
- “Northrop Grumman” refers to Current NGC and its consolidated subsidiaries prior to the spin-off or New NGC and its consolidated subsidiaries after the internal reorganization or the spin-off, as applicable.
<table>
<thead>
<tr>
<th><strong>Summary of the Spin-Off</strong></th>
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<tbody>
<tr>
<td><strong>Distributing Company</strong></td>
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<tr>
<td><strong>Distributed Company</strong></td>
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<td><strong>Distributed Securities</strong></td>
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<td><strong>Record Date</strong></td>
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<td><strong>Distribution Date</strong></td>
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<td><strong>Internal Reorganization</strong></td>
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<tr>
<td><strong>Incurrence of Debt</strong></td>
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<td><strong>Distribution Ratio</strong></td>
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<tr>
<td><strong>The Distribution</strong></td>
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12
weeks to electronically issue shares of HII common stock to you or to your bank or brokerage firm on your behalf by way of direct registration in book-entry form. Trading of our shares will not be affected during that time. Following the spin-off, stockholders whose shares are held in book-entry form may request that their shares of HII common stock be transferred to a brokerage or other account at any time. You will not be required to make any payment, surrender or exchange your shares of Northrop Grumman common stock or take any other action to receive your shares of HII common stock.

**Fractional Shares**

The distribution agent will not distribute any fractional shares of HII common stock to Northrop Grumman stockholders. Fractional shares of HII common stock to which Northrop Grumman stockholders of record would otherwise be entitled will be aggregated and sold in the public market by the distribution agent. The aggregate net cash proceeds of the sales will be distributed ratably to those stockholders who would otherwise have received fractional shares of HII common stock. Proceeds from these sales will generally result in a taxable gain or loss to those stockholders. Each stockholder entitled to receive cash proceeds from these shares should consult his, her or its own tax advisor as to such stockholder’s particular circumstances. The tax consequences of the distribution are described in more detail under “The Spin—Off—U.S. Federal Income Tax Consequences of the Spin-Off.”

**Conditions to the Spin-Off**

Completion of the spin-off is subject to the satisfaction or waiver by Northrop Grumman of the following conditions:

- the board of directors of Northrop Grumman, in its sole and absolute discretion, shall have authorized and approved the spin-off and not withdrawn such authorization and approval, and the New NGC board shall have declared the dividend of the common stock of HII to Northrop Grumman stockholders;

- the Separation and Distribution Agreement and each ancillary agreement contemplated by the Separation and Distribution Agreement shall have been executed by each party thereto;

- the Securities and Exchange Commission (the “SEC”) shall have declared effective HII’s registration statement on Form 10, of which this information statement is a part, under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), no stop order suspending the effectiveness of the registration statement shall be in effect, and no proceedings for such purpose shall be pending before or threatened by the SEC;

- HII common stock shall have been accepted for listing on the NYSE or another national securities exchange approved by Northrop Grumman, subject to official notice of issuance;

- the internal reorganization (as described in “The Spin-Off—Background”) shall have been completed;

- Northrop Grumman shall have received the IRS Ruling and an opinion of its tax counsel, each of which shall remain in full force and effect, that the spin-off (including the internal reorganization) will not result in recognition, for U.S. Federal income tax

purposes, of income, gain or loss to Northrop Grumman, or of income, gain or loss to its stockholders, except to the extent of cash received in lieu of fractional shares;

- HII shall have (i) entered into the HII Credit Facility, (ii) received the net proceeds from the HII Debt and (iii) made the Contribution;

- no order, injunction or decree that would prevent the consummation of the distribution shall be threatened, pending or issued (and still in effect) by any governmental authority of competent jurisdiction, other legal restraint or prohibition preventing consummation of the distribution shall be pending, threatened, issued or in effect and no other event outside the control of Northrop Grumman shall have occurred or failed to occur that prevents the consummation of the distribution;

- no other events or developments shall have occurred prior to the distribution that, in the judgment of the board of directors of Northrop Grumman, would result in the spin-off having a significant adverse effect on Northrop Grumman or its stockholders;

- prior to the distribution, this information statement shall have been mailed to the holders of Northrop Grumman common stock as of the record date;

- HII’s current directors shall have duly elected the individuals listed as members of its post-distribution board of directors in this information statement, and such individuals shall become the members of HII’s board of directors immediately prior to the distribution;

- prior to the distribution, Northrop Grumman shall have delivered to HII resignations from those HII positions, effective as of immediately prior to the distribution, of each individual who will be an employee of Northrop Grumman after the distribution and who is an officer or director of HII immediately prior to the distribution; and

- immediately prior to the distribution, the Restated Certificate of Incorporation and the Restated Bylaws, each in substantially the form filed as an exhibit to the registration statement on Form 10 of which this information statement is part, shall be in effect.

The fulfillment of the foregoing conditions will not create any obligation on Northrop Grumman’s part to effect the spin-off. We are not aware of any material federal or state regulatory requirements that must be complied with or any material approvals that must be obtained, other than compliance with SEC rules and regulations and the declaration of effectiveness of the Registration Statement by the SEC, in connection with the distribution. Northrop Grumman has the right not to complete the spin-off if, at any time prior to the distribution, the board of directors of Northrop Grumman determines, in its sole discretion, that the spin-off is not in the best interests of Northrop Grumman or its stockholders, that a sale or other alternative is in the best interests of Northrop Grumman or its stockholders or that
### Trading Market and Symbol

We have filed an application to list HII common stock on the NYSE under the ticker symbol “HII.” We anticipate that, at least two trading days prior to the record date, trading of shares of HII common stock will begin on a “when-issued” basis and will continue up to and including the distribution date, and we expect “regular-way” trading of HII common stock will begin the first trading day after the distribution date. We also anticipate that, at least two trading days prior to the record date, there will be two markets in Northrop Grumman common stock: a regular-way market on which shares of Northrop Grumman common stock will trade with an entitlement to shares of HII common stock to be distributed pursuant to the distribution, and an “ex-distribution” market on which shares of Northrop Grumman common stock will trade without an entitlement to shares of HII common stock. For more information, see “Trading Market.”

### Tax Consequences

Northrop Grumman has received the IRS Ruling and will receive an opinion of counsel stating that Northrop Grumman, Northrop Grumman’s stockholders and HII will not recognize any taxable income, gain or loss for U.S. Federal income tax purposes as a result of the spin-off, including the internal reorganization, except with respect to any cash received by Northrop Grumman’s stockholders in lieu of fractional shares. For a more detailed description of the U.S. Federal income tax consequences of the spin-off, see “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.”

Each stockholder is urged to consult his, her or its tax advisor as to the specific tax consequences of the spin-off to such stockholder, including the effect of any state, local or non-U.S. tax laws and of changes in applicable tax laws.

### Relationship with Northrop Grumman after the Spin-Off

We will enter into a Separation and Distribution Agreement and other agreements with Northrop Grumman related to the spin-off. These agreements will govern the relationship between us and Northrop Grumman after completion of the spin-off and provide for the allocation between us and Northrop Grumman of various assets, liabilities and obligations (including employee benefits, intellectual property, insurance and tax-related assets and liabilities). The Separation and Distribution Agreement, in particular, will provide for the settlement or extinguishment of certain obligations between us and Northrop Grumman. We intend to enter into a Transition Services Agreement with Northrop Grumman pursuant to which certain services will be provided on an interim basis following the distribution. We also intend to enter into an Employee Matters Agreement that will set forth the agreements between Northrop Grumman and us concerning certain employee compensation and benefit matters. Further, we intend to enter into a Tax Matters Agreement with Northrop Grumman regarding the sharing of taxes incurred before and after completion of the spin-off, certain indemnification rights with respect to tax matters and certain restrictions to preserve the tax-free status of the spin-off. In addition, to facilitate the ongoing use of various intellectual property by each of us and Northrop Grumman, we intend to enter into an Intellectual Property License Agreement with Northrop Grumman.
that will provide for certain reciprocal licensing arrangements. We also intend to enter into an Insurance Matters Agreement with Northrop Grumman. We describe these arrangements in greater detail under “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off,” and describe some of the risks of these arrangements under “Risk Factors—Risks Relating to the Spin-Off.”

Dividend Policy

HII does not currently intend to pay a dividend. Going forward, HII’s dividend policy will be established by the HII board of directors based on our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that HII’s board of directors considers relevant. In addition, the terms of the agreements governing our new debt or debt that we may incur in the future may limit or prohibit the payments of dividends. For more information, see “Dividend Policy.”

Transfer Agent

Computershare Trust Company, N.A.

Risk Factors

We face both general and specific risks and uncertainties relating to our business, our relationship with Northrop Grumman and our being an independent, publicly owned company. We also are subject to risks relating to the spin-off. You should carefully read “Risk Factors” beginning on page 22 of this information statement.
Summary Historical and Unaudited Pro Forma Condensed Consolidated Financial Data

The following table presents the summary historical condensed consolidated financial data for NGSB and HII’s unaudited pro forma condensed consolidated financial data. The consolidated financial data set forth below for the years ended December 31, 2010, 2009 and 2008 are derived from NGSB’s audited consolidated financial statements included elsewhere in this information statement.

The summary unaudited pro forma condensed consolidated financial data for the year ended December 31, 2010 have been prepared to reflect the spin-off, including: (i) the distribution of 48,492,792 shares of HII common stock by Northrop Grumman to its stockholders; (ii) the incurrence of $1,775 million of the HII Debt and the HII Credit Facility by HII and the making of the $1,429 million Contribution; (iii) adjustments for certain federal contract matters in accordance with the Separation and Distribution Agreement; (iv) adjustments for uncertain federal and state tax positions in accordance with the Tax Matters Agreement; (v) the cost of special long-term incentive stock grants, which are contingent upon completion of the spin-off, in the form of restricted stock rights for our Named Executive Officers, including our President, and other key employees; and (vi) the cost of modifying certain terms of existing long-term incentive stock plans to allow continued vesting for our participants. The unaudited pro forma condensed consolidated statement of operations data presented for the year ended December 31, 2010 assumes the spin-off occurred on January 1, 2010, the first day of fiscal year 2010. Earnings per share calculations are based on the pro forma weighted average shares that would have been outstanding during 2010 (49.5 million shares) determined by applying the one-for-six exchange ratio to Northrop Grumman’s basic weighted average shares outstanding for the year ended December 31, 2010. The unaudited pro forma condensed consolidated statement of financial position data assumes the spin-off occurred on December 31, 2010. The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and we believe such assumptions are reasonable under the circumstances.

The unaudited pro forma condensed consolidated financial statements are not necessarily indicative of our results of operations or financial condition had the distribution and our anticipated post-spin-off capital structure been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition which would have resulted had we been operating as an independent, publicly owned company during such periods. In addition, they are not necessarily indicative of our future results of operations or financial condition.

You should read this summary financial data together with “Unaudited Pro Forma Condensed Consolidated Financial Statements,” “Capitalization,” “Selected Historical Consolidated Financial and Other Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and NGSB’s consolidated financial statements and accompanying notes included in this information statement.

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</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$ 6,723</td>
<td>$6,723</td>
<td>$6,292</td>
<td>$ 6,189</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>2,490</td>
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<td></td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>255</td>
<td>248</td>
<td>211</td>
<td>(2,354)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>79</td>
<td>135</td>
<td>124</td>
<td>(2,420)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>5,560</td>
<td>5,203</td>
<td>5,036</td>
<td>4,760</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,851</td>
<td>105</td>
<td>283</td>
<td>283</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total long-term obligations</td>
<td>3,294</td>
<td>1,559</td>
<td>1,645</td>
<td>1,761</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free cash flow (1)</td>
<td>98</td>
<td>168</td>
<td>(269)</td>
<td>121</td>
<td></td>
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</tr>
</tbody>
</table>

(1) Free cash flow is a non-generally accepted accounting principles (“non-GAAP”) financial measure and represents cash from operating activities less capital expenditure. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Free Cash Flow” for more information on this measure.
## GLOSSARY OF PROGRAMS

Listed below are brief descriptions of the programs mentioned in this information statement.

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
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</thead>
<tbody>
<tr>
<td>AREVA Newport News</td>
<td>Participate, as minority owners of a limited liability company formed with AREVA NP, in a joint venture to supply heavy components to the civilian nuclear electrical power sector. The joint venture, AREVA Newport News, LLC, plans to construct a production facility adjacent to the Newport News shipyard for the manufacture of heavy commercial nuclear power plant components.</td>
</tr>
<tr>
<td>CVN-65 USS Enterprise</td>
<td>Maintain and support the world’s first nuclear-powered aircraft carrier, the inactivation of which is expected to start in 2013.</td>
</tr>
<tr>
<td>CVN-68 Nimitz-class aircraft carriers</td>
<td>Refuel, maintain and repair the CVN-68 Nimitz-class aircraft carriers, which are the largest warships in the world. Each Nimitz-class carrier is designed for an approximately 50-year service life, with one mid-life refueling. Aircraft carriers are the centerpiece of America’s Naval forces. On any given day, aircraft carriers exercise the U.S. Navy core capabilities of power projection, forward presence, humanitarian assistance, deterrence, sea control and maritime security. The 10th and final Nimitz-class carrier constructed, CVN-77 USS George H.W. Bush, was commissioned in 2009.</td>
</tr>
<tr>
<td>CVN-78 Gerald R. Ford-class aircraft carriers</td>
<td>Design and construction for the CVN-21 program, which is the future aircraft carrier replacement program for CVN-65 USS Enterprise and CVN-68 Nimitz-class aircraft carriers. CVN-78 Gerald R. Ford (the first ship of the CVN-21 program) is currently under construction and is scheduled to be delivered in 2015. CVN-79 (unnamed) is under contract for engineering, advance construction and purchase of long-lead time components and material. CVN-78 Gerald R. Ford-class carriers are expected to be awarded every five years across the U.S. Navy’s 30-Year Plan. They will be the premier forward asset for crisis response and early decisive striking power in a major combat operation. The class brings improved warfighting capability, quality of life improvements for sailors and reduced acquisition and life cycle costs.</td>
</tr>
<tr>
<td>DDG-51 Arleigh Burke-class destroyers</td>
<td>Build guided missile destroyers designed for conducting anti-air, anti-submarine, anti-surface and strike operations. The Aegis-equipped DDG-51 Arleigh Burke-class destroyers are the U.S. Navy’s primary surface combatant, and have been constructed in variants, allowing technological advances during construction. The U.S. Navy has committed to restarting the DDG-51 program, and truncating construction of the DDG-1000 class of ships. The plan is for a total of 62 ships.</td>
</tr>
<tr>
<td>DDG-1000 Zumwalt-class destroyers</td>
<td>Design and build next-generation multi-mission surface combatants in conjunction with General Dynamics Bath Iron Works and construct the ships’ integrated composite deckhouses, as well as portions of the ships’ aft peripheral vertical launch systems. Developed under the DD(X) destroyer program, the DDG-1000 Zumwalt-class destroyer is the lead ship of a class tailored for land attack and littoral dominance with capabilities that defeat current and projected threats and improve battle force defense. In July 2008, the U.S. Navy announced its decision to truncate the DDG-1000 program at three ships and restart the construction of BMD-capable DDG-51s. We are constructing the composite superstructure of DDG-1000 Zumwalt and DDG-1001 Michael Monsoor and have submitted a proposal to construct the DDG-1002 (unnamed) composite superstructure.</td>
</tr>
<tr>
<td>Program Name</td>
<td>Program Description</td>
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</tr>
<tr>
<td>DoE</td>
<td>Participate, as a minority member in two joint ventures, in the management and operation of the U.S. Department of Energy’s (“DoE”) nuclear sites, the Savannah River Site near Aiken, South Carolina, and potentially at the Idaho National Laboratory, near Idaho Falls, Idaho. Our joint venture partners include Fluor Corporation and Honeywell International Inc. at the Savannah River Site, and CH2M Hill in Idaho.</td>
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<tr>
<td>Inactivation</td>
<td>Defuel and inactivate nuclear-powered aircraft carriers for the U.S. Navy. Inactivation of nuclear-powered aircraft carriers, of which 11 have been constructed to date, is expected to start in 2013 with CVN-65 USS Enterprise.</td>
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<tr>
<td>LHA-6 America-class amphibious assault ships</td>
<td>Design and build amphibious assault ships that provide forward presence and power projection as an integral part of joint, interagency and multinational maritime expeditionary forces. The LHA-6 America-class ships, together with the LHD-1 Wasp-class ships, are the successors to the aging LHA-1 Tarawa-class ships. Three of the original five Tarawa-class ships have been recently decommissioned, and the remainder of the class is scheduled to be decommissioned by 2015. The first LHA replacement (LHA(R)) ship, LHA-6 America, was placed under contract with us in June 2007, and is scheduled for delivery in 2013. The LHA-6 America-class ships optimize aviation operations and support capabilities. The key differences between LHA-6 and the LHD-1 Wasp-class ships include an enlarged hangar deck, enhanced aviation maintenance facilities, increased aviation fuel capacity, additional aviation storerooms, removal of the well deck and an electronically reconfigurable command, control, computers, communications, intelligence, surveillance and reconnaissance (C4ISR) suite.</td>
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<td>LHD-1 Wasp-class amphibious assault ships</td>
<td>Build the world’s largest class of amphibious assault ships, the LHD-1 Wasp-class ships, which perform essentially the same mission as the LHA/LHA(R) ships. These ships project power and maintain presence by serving as the cornerstone of the Amphibious Readiness Group (ARG)/Expeditionary Strike Group (ESG). A key element of the Seapower 21 pillars of Sea Strike and Sea Basing, these ships transport and land elements of the Marine Expeditionary Brigade (MEB) with a combination of aircraft and landing craft. The plan is for a total of eight ships, of which LHD-8 USS Makin Island, commissioned in October 2009 and equipped with improved capabilities, is the last.</td>
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## Table of Contents

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<tr>
<td>LPD-17 <em>San Antonio</em>-class</td>
<td>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 LPD-17 <em>San Antonio</em>-class 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. Collectively, these ships functionally replace over 41 ships (LPD-4, LSD-36, LKA-113 and LST-1179 classes of amphibious ships), providing the U.S. Navy and U.S. Marine Corps with modern, seabased platforms that are networked, survivable and built to operate with 21st century transformational platforms. The first ship in the class, LPD-17 USS <em>San Antonio</em>, was delivered in July 2005. We have delivered LPD-18 through LPD-21 to the U.S. Navy. We are currently constructing LPD-22 through LPD-25 and the U.S. Navy has awarded us the long lead time material contract for LPD-26 and LPD-27. A long lead time material contract is a contract that provides the contractor with the ability to begin ordering materials for a subsequent construction contract. These types of contracts are often used with major ship acquisitions due to the length of time between order and delivery of some of the equipment.</td>
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<tr>
<td>NSC-1 <em>Legend</em>-class National Security Cutter</td>
<td>Design and build the U.S. Coast Guard’s National Security Cutters, the largest and most technically advanced class of cutter in the Coast Guard. The first three NSCs were procured through a limited liability company owned by us and Lockheed Martin. NSC-4 and future NSCs are expected to be ordered directly from us. 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 eight ships of which the first two ships, NSC-1 USCGC <em>Bertholf</em> and NSC-2 USCGC <em>Waesche</em>, have been delivered and NSC-3 <em>Stratton</em> is under construction. The construction contract for NSC-4 <em>Hamilton</em> was awarded in November 2010, and long-lead procurement is underway for NSC-5 (unnamed).</td>
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<td>Refueling and Complex Overhaul (RCOH)</td>
<td>Perform refueling and complex overhaul (RCOH) of nuclear-powered aircraft carriers, which is required at the mid-point of their 50-year life cycle. CVN-71 USS <em>Theodore Roosevelt</em> is currently undergoing RCOH, marking the fifth CVN RCOH in history. We have already successfully completed the RCOH process for CVN-65 USS <em>Enterprise</em>, CVN-68 USS <em>Nimitz</em>, CVN-69 USS <em>Dwight D. Eisenhower</em> and CVN-70 USS <em>Carl Vinson</em>, and have been awarded a planning contract for the RCOH of CVN-72 USS <em>Abraham Lincoln</em>.</td>
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<td>Program Name</td>
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<td>SSBN(X) Ohio-class Submarine Replacement Program</td>
<td>Act, through an agreement with Electric Boat, as design subcontractor for the Ohio-class replacement boats. The U.S. Navy has committed to designing a replacement class for the aging Ohio-class nuclear ballistic submarines, which were first introduced into service in 1981. The SSBN(X) Ohio-class Submarine Replacement Program represents a new program opportunity for us. Electric Boat is expected to lead the program. Although the contract is not yet negotiated, we expect to share in the design effort and our experience and well-qualified workforce position us for a potential role in the construction effort. The Ohio-class includes 14 ballistic missile submarines (SSBN) and four cruise missile submarines (SSGN). The Ohio-class Submarine Replacement Program currently calls for 12 new ballistic missile submarines over a 15-year period for approximately $4 to $7 billion each. The first Ohio-class ballistic submarine is expected to be retired in 2029, meaning that the first replacement platform should be in commission by that time. The U.S. Navy has initiated the design process for this class of submarine, and we have begun design work as a subcontractor to Electric Boat. We cannot guarantee that we will continue to work on the SSBN(X) design with Electric Boat, and we can give no assurance regarding the final design concept chosen by the U.S. Navy or the amount of funding made available by Congress for the SSBN(X) Ohio-class Submarine Replacement Program. Construction is expected to begin in 2019 with the procurement of long-lead time materials in 2015.</td>
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<tr>
<td>SSN-774 Virginia-class fast attack submarines</td>
<td>Construct the newest attack submarine as the principal subcontractor to Electric Boat. The SSN-774 Virginia-class 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. The SSN-774 Virginia-class has several innovations which significantly enhance its warfighting capabilities with an emphasis on littoral operations. Through the extensive use of modular construction, open architecture, and commercial off-the-shelf components, the SSN-774 Virginia-class is designed to remain state-of-the-art for the entire operational life of its submarines through the rapid introduction of new systems and payloads. Through a teaming agreement with Electric Boat that provides for approximate equality of work allocated between the parties, we provide SSN-774 Virginia-class nuclear fast attack submarines. Under the teaming agreement, Electric Boat is the prime contractor to whom construction contracts have been awarded in blocks, and we are principal subcontractor. Block I was awarded in 1998 and consisted of four submarines, Block II was awarded in 2003 and consisted of six submarines, and Block III was awarded in 2008 and consisted of eight submarines. We and Electric Boat have delivered the first seven submarines of the class (all four submarines from Block I and three submarines from Block II), have another five submarines under construction (the remaining three submarines of Block II and the first two submarines of Block III) and have been contracted to deliver an additional six submarines (the remaining six submarines of Block III). Based on expected build rates, the last Block III SSN-774 Virginia-class submarine is scheduled for delivery in 2018. We are also investing in our facilities to support the increase in production rate from one to two SSN-774 Virginia-class submarines per year beginning in 2011.</td>
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RISK FACTORS

You should carefully consider each of the following risks, which we believe are the principal risks that we face and of which we are currently aware, and all of the other information in this information statement. Some of the risks described below relate to our business, while others relate to the spin-off. Other risks relate principally to the securities markets and ownership of our common stock.

Should any of the following risks and uncertainties develop into actual events, our business, financial condition or results of operations could be materially and adversely affected, the trading price of our common stock could decline and you could lose all or part of your investment.

Risks Relating to Our Business

We face the following risks in connection with the general conditions and trends of the industry in which we operate:

We depend heavily on a single customer, the U.S. Government, for substantially all of our business, and changes affecting this customer’s ability to do business with us could have a material adverse effect on our financial position, results of operations or cash flows.

Our business is primarily dependent upon the design, construction, repair, maintenance, fleet support and life cycle services of nuclear-powered ships, such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants and expeditionary warfare/amphibious assault ships for the U.S. Navy and coastal defense surface ships for the U.S. Coast Guard, as well as the overhaul and refueling of nuclear-powered ships for the U.S. Navy. Substantially all of our revenue during 2010 was derived from products and services ultimately sold to the U.S. Government. In addition, substantially all of our backlog was U.S. Government-related as of December 31, 2010. We are a supplier, either directly or as a subcontractor or team member, to the U.S. Government and its agencies. These contracts are subject to our customers’ political and budgetary constraints and processes, changes in customers’ short-range and long-range strategic plans, the timing of contract awards, significant changes in contract scheduling, intense contract and funding competition, difficulty in forecasting costs and schedules when bidding on developmental and highly sophisticated technical work, and delays in the timing of contract approval, as well as other risks such as contractor suspension or debarment in the event of certain violations of legal or regulatory requirements.

Contracts with the U.S. Government are subject to uncertain levels of funding, modification due to changes in customer priorities and potential termination.

We are directly dependent upon allocation of defense monies to the U.S. Navy and the U.S. Coast Guard. The funding of U.S. Government programs is subject to congressional budget authorization and appropriation processes. For certain programs, Congress appropriates funds on a fiscal year basis even though a program may be performed over several fiscal years. Consequently, programs may be partially funded initially and additional funds are committed only as Congress makes further appropriations. We cannot predict the extent to which total funding and/or funding for individual programs will be included, increased or reduced as part of the 2011 and subsequent budgets ultimately approved by Congress or will be included in the scope of separate supplemental appropriations. For example, the proposed 2011 defense budget includes funding to increase construction from one to two Virginia-class submarines. Currently the U.S. Government is operating under a continuing resolution that maintains defense funding at 2010 appropriation levels. If the proposed 2011 defense budget is not approved and funding continues at last year’s level, funding of the second Virginia-class submarine construction contract in 2011 could be delayed or eliminated. The impact, severity and duration of the current U.S. economic situation, the sweeping economic plans adopted by the U.S. Government, and pressures on the federal budget could also adversely affect the total funding and/or funding for individual programs. In the event that appropriations for any of our programs becomes unavailable, or is reduced or delayed, our contract or subcontract under such program may be terminated or adjusted by the U.S. Government, which could have a material adverse effect on our future sales under such program, and on our financial position, results of operations or cash flows.
We also cannot predict the impact of potential changes in priorities due to military transformation and planning and/or the nature of war-related activity on existing, follow-on or replacement programs. A shift of government priorities to programs in which we do not participate and/or reductions in funding for or the termination of programs in which we do participate, could have a material adverse effect on our financial position, results of operations or cash flows.

In addition, the U.S. Government generally has the ability to terminate contracts, in whole or in part, with little or no prior notice, for convenience or for default based on performance. In the event of termination for the U.S. Government’s convenience, contractors are normally protected by provisions covering reimbursement for costs incurred on the contracts and profit related to those costs but not the anticipated profit that would have been earned had the contract been completed. However, such a termination could result in the cancelation of future work on that program. Termination resulting from our default can expose us to liability and have a material adverse effect on our financial condition and our ability to compete for contracts.

**Contract cost growth on fixed price and other contracts that cannot be justified as an increase in contract value due from customers exposes us to reduced profitability and the potential loss of future business.**

Our operating income is adversely affected when we incur certain contract costs or certain increases in contract costs that cannot be billed to customers. This cost growth can occur if estimates to complete increase due to technical challenges, manufacturing difficulties or delays, or workforce-related issues, or if initial estimates used for calculating the contract cost were inaccurate. The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability or reduced productivity of labor, the nature and complexity of the work to be performed, the timelines and availability of materials, major subcontractor performance and quality of their products, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters and the inability to recover any claims included in the estimates to complete. For example, lack of progress in LHD-8 on-board testing preparatory to sea trials prompted us to undertake a comprehensive review of the program, including a detailed physical audit of the ship, resulting in a pre-tax charge of $272 million in the first quarter of 2008 for anticipated cost growth related to the identified need for substantial re-work on the ship. In addition to the LHD-8 charge, an additional $54 million of charges was recognized in the first quarter of 2008, primarily for schedule impacts on other ships and impairment of purchased intangibles at the Gulf Coast shipyards. Subsequent to recognizing the LHD-8 charge, we completed our performance under the contract at costs that were lower than the amounts previously anticipated primarily due to efficiencies from improved operating practices, risk retirement and increased escalation recovery. As a result, $63 million of the loss provision was reversed in 2008, and an additional $54 million was reversed in 2009 upon delivery of the ship. In addition, shortly after Hurricane Katrina, we entered into a fixed price incentive contract for LPD-22 through LPD-25, which, in hindsight, reflected aggressive cost targets resulting in estimated costs today that are greater than were included in our bid. Therefore, construction under the LPD-22 through LPD-25 contract has been adversely impacted by operating performance factors, resulting in unfavorable cost growth that led to pre-tax charges totaling $171 million in 2009. A significant change in cost estimates on one or more programs could have a material adverse effect on our financial position, results of operations or cash flows.

Our principal U.S. Government business is currently being performed under firm fixed price (“FFP”), fixed price incentive (“FPI”), cost plus incentive fee (“CPIF”), cost plus fixed fee (“CPFF”) and cost plus award fee (“CPAF”) contracts. The risk to us of not being reimbursed for some of our costs varies with the type of contract. Under FFP contracts, we retain all costs savings on completed contracts but are liable for the full amount of all expenditures in excess of the contract price. FPI contracts, on the other hand, are flexibly priced arrangements under which overruns and underruns to an agreed-upon target cost are shared between the U.S. Government and us. Our profit is increased or decreased according to a formula set forth in the contract, which generally compares the amount of costs incurred to the contract target cost. The U.S. Government is liable for its share of all allowable costs up to a ceiling price. However, we are responsible for all costs incurred in excess of such ceiling price, which is typically 125–135% of target cost. In addition, our FPI contracts, if long-term, generally provide for the U.S. Government to pay escalation based on published indices relating to the shipbuilding industry. Under CPIF, CPFF and CPAF contracts, we are generally only required to perform the contract to the extent the U.S. Government makes funds available, and we recover all allowable costs incurred in the performance of the contract. Under CPIF
contracts, our profit is determined by a contractually specified formula that essentially compares allowable incurred costs to the contract target cost. In some instances, the contract fee may be affected by a maximum or minimum fee percentage set for the contract. Under CPFF contracts, the fee is the same without regard to the amount of cost incurred. Under CPAF contracts, the fee is determined in accordance with the award fee provisions in the contract. In 2010, approximately 42% of Newport News’ revenues were CPFF, which primarily included aircraft carrier construction and RCOH. Twenty-six percent of Newport News’ 2010 revenues were FPI contracts, mainly consisting of submarine construction, 29% of revenues were CPFF contracts, 2% were CPAF and 1% were FFP. Approximately 74% of Gulf Coast’s revenues were FPI, 13% were CPAF, 6% were CPFF, 5% were CPIF and 2% were FFP.

Our earnings and margins depend, in part, on our ability to perform under contracts and on subcontractor performance as well as raw material and component availability and pricing.

When agreeing to contractual terms, we make assumptions and projections about future conditions and events, many of which extend over long periods. These projections assess the productivity and availability of labor, the complexity of the work to be performed, the cost and availability of materials, the impact of delayed performance and the timing of product deliveries. We cannot guarantee that there will not be significant variances from our assumptions, delays in our performance and the timing of our product deliveries. If there is a significant change in one or more of these circumstances or estimates, or if we face unanticipated contract costs, the profitability of one or more of these contracts may be adversely affected.

We also rely on other companies to provide raw materials and major components for our products and rely on subcontractors to produce hardware elements and sub-assemblies and perform some of the services that we provide to our customers. Disruptions or performance problems caused by our subcontractors and vendors could have an adverse effect on our ability to meet our commitments to customers. Our ability to perform our obligations as a prime contractor could be adversely affected if one or more of the vendors or subcontractors are unable to provide the agreed-upon products or materials or perform the agreed-upon services in a timely and cost-effective manner.

All major materials, parts and components for our products are currently available in adequate supply from domestic and/or foreign sources. Through the cost escalation provisions contained in some of our U.S. Government contracts, we may be protected from increases in material costs to the extent that the increases in our costs are in line with industry indices. However, the difference in basis between our actual material costs and these indices may expose us to cost uncertainty even with these provisions. The most significant raw material we require is steel. A significant delay in supply deliveries of our key raw materials required in our production processes could have a material adverse effect on our financial position, results of operations or cash flows.

In connection with our government contracts, we are required to procure certain materials and component parts from supply sources approved by the U.S. Government. Due largely to the consolidation of the defense industry, there are currently several components for which there is only one supplier. The inability of a sole source supplier to meet our needs could have a material adverse effect on our financial position, results of operations or cash flows.

Our results of operations depend on the award of new contracts.

The prospects of U.S. shipyards, including ours, can be materially affected by their success in securing significant U.S. Navy contract awards. In February 2010, the Department of Defense (the "DoD") issued its Report of the Quadrennial Defense Review (the “QDR”), a legislatively mandated review of military strategy and priorities that shapes defense funding over the ensuing four years. The QDR emphasized the related challenge of rebuilding readiness at a time when the DoD is also pursuing growth, modernization and transformation of its forces and capabilities, reiterated the need for preparedness across the range of military operations, and prioritized continued investment in warfighting capabilities. The U.S. Navy relies on the force requirements set forth in the QDR to design its 30-Year Plan. The QDR report describes some of the tradeoffs that the DoD’s leaders have identified to enable the rebalancing of U.S. military capabilities. The President’s 2011 budget request proposes reductions to certain lower-priority programs, including some in which we participate or for which we expect to compete, so that more pressing needs can be addressed, both within that budget and those of subsequent years. The U.S. Navy has decided to delay procurement of CVN-79 (unnamed) from fiscal year 2012 to 2013, cancel the new-design CG(X)
procurement program and truncate the DDG-1000 Zumwalt-class destroyers program to three ships. We believe that our shipbuilding programs are a high priority for national defense, but under budgetary pressures, one or more of our programs may be reduced, extended or terminated by our U.S. Government customers. Specific actions already taken that could negatively affect us include the deferral of production of new maritime prepositioning ships, the reduction in the number of planned large surface combatants and the increase of the procurement interval for aircraft carriers to five years.

In February 2010, the U.S. Navy released its 30-Year Plan, in which the U.S. Navy used the goals and strategies set forth in the QDR to identify the naval capabilities projected to meet the defense challenges faced by the nation in the next three decades. The 30-Year Plan uses, as a baseline, a 313-ship force that was first proposed by the U.S. Navy to Congress in 2006 to design a battle inventory to provide global reach; persistent presence; and strategic, operational and tactical effects expected of naval forces within reasonable levels of funding. Any significant reduction from the 30-Year Plan could have a material adverse effect on our financial position, results of operations or cash flows.

Although we believe that, as the only company currently capable of building the U.S. Navy’s nuclear-powered aircraft carriers, we are in a strong competitive position to be awarded any contracts for building new nuclear-powered aircraft carriers, we cannot give any assurances that we will receive any award, that aircraft carrier construction projects will not be delayed or that aircraft carrier construction projects will be funded by Congress. Furthermore, in response to the need for cheaper alternatives and the proliferation of “smart weapons,” it is possible that future strategy reassessments by the DoD may result in a decreased need for aircraft carriers. We are currently performing design engineering and advanced construction and procuring long lead time materials for the next generation of aircraft carriers. For the year ended December 31, 2010, aircraft carrier construction and design engineering accounted for approximately 21% of our consolidated revenue. Aircraft carrier programs and other government projects can be delayed, and such delays typically cause loss of income during the period of delay and retraining costs when work resumes. Any significant reduction in the level of government appropriations for aircraft carrier or other shipbuilding programs, or a significant delay of such appropriations, would have a material adverse effect on our financial position, results of operations or cash flows.

Through a teaming agreement with Electric Boat that provides for approximate equality of work allocated between the parties, we provide SSN-774 Virginia-class nuclear fast attack submarines. Under the teaming agreement, Electric Boat is the prime contractor to whom construction contracts have been awarded in blocks, and we are principal subcontractor. Block I was awarded in 1998 and consisted of four submarines, Block II was awarded in 2003 and consisted of six submarines, and Block III was awarded in 2008 and consisted of eight submarines. We and Electric Boat have delivered the first seven submarines of the class (all four submarines from Block I and three submarines from Block II), have another five submarines under construction (the remaining three submarines of Block II and the first two submarines of Block III) and have been contracted to deliver an additional six submarines (the remaining six submarines of Block III). Based on expected build rates, the last Block III SSN-774 Virginia-class submarine is scheduled for delivery in 2018. We are also investing in our facilities to support the increase in production rate from one to two SSN-774 Virginia-class submarines per year beginning in 2011. The team has a current backlog of 11 SSN-774 Virginia-class submarines, but there can be no assurance that the SSN-774 Virginia-class submarine program will continue to be funded or proceed on schedule. Additionally, the U.S. Navy has initiated the design process for the aging Ohio-class nuclear ballistic submarines, which were first introduced into service in 1981. The SSBN(X) Ohio-class Submarine Replacement Program represents a new program opportunity for us. Electric Boat is expected to lead the program. Although the contract is not yet negotiated, we expect to share in the design effort and our experience and well-qualified workforce position us for a potential role in the construction effort. The Ohio-class includes 14 ballistic missile submarines (SSBN) and four cruise missile submarines (SSGN). The Ohio-class Submarine Replacement Program currently calls for 12 new ballistic missile submarines over a 15-year period for approximately $4 to $7 billion each. The first Ohio-class ballistic submarine is expected to be retired in 2029, meaning that the first replacement platform should be in commission by that time. We have begun design work as a subcontractor to Electric Boat. We cannot guarantee that we will continue to work on the SSBN(X) design with Electric Boat, and we can give no assurance regarding the final design concept chosen by the U.S. Navy or the amount of funding made available by Congress for the
SSBN(X) Ohio-class Submarine Replacement Program. Construction is expected to begin in 2019 with the procurement of long-lead time materials in 2015.

With respect to the federal nuclear market, we are a minority member of a joint venture that manages and operates the Savannah River Site for the DoE in South Carolina. We are also a minority member of a joint venture that was recently awarded the contract to manage and operate DoE’s Advanced Mixed Waste Project in Idaho, which was subsequently protested and is under re-evaluation by the DoE. We are also preparing to bid (also with others in an alliance) on several other DoE site management contracts. Competition for these types of contracts and projects is intense and there can be no assurance that we will continue to receive contracts or be successful with our initiatives in these areas.

Additionally, the U.S. Navy has stated that it currently expects that LPD-17 San Antonio-class amphibious assault transport dock ships will be a mainstay of the U.S. Navy over the next decade, replacing a number of vessels nearing the end of their useful lives. Our U.S. Gulf Coast shipyards are the sole builders of amphibious assault ships (LHA, LHD and LPD). Despite Congress’s recent authorization for the funding of the 10th ship in the class, we cannot guarantee that the DoD and Congress will fund the 10 or 11 planned LPD-17 San Antonio-class vessels. In the second quarter of 2009, we became aware of quality issues relating to certain pipe welds on our LPD-17 class of ships under production in the Gulf Coast as well as those that had previously been delivered. In light of these recent quality issues, we may incur additional costs to maintain our position as the exclusive provider for these ships. See “—Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, require manufacturing expertise or are dependent upon factors not wholly within our control and failure to meet these obligations could adversely affect our profitability and future prospects.” Any failure to fund such vessels, or, even if funded, to award the construction of such vessels to us, could have a material adverse effect on our financial position, results of operations or cash flows.

The Department of Defense has announced plans for significant changes to its business practices that could have a material effect on its overall procurement process and adversely impact our current programs and potential new awards.

Last year, the DoD announced certain initiatives designed to gain efficiencies, refocus priorities and enhance business practices used by the DoD, including those used to procure goods and services from defense contractors. These initiatives are organized in five major areas: Affordability and Cost Growth; Productivity and Innovation; Competition; Services Acquisition; and Processes and Bureaucracy. Our understanding is that these initiatives are intended to drive down costs and enhance efficiencies and productivity. As described by a senior DoD official, they are intended to enable the DoD to do more without more.

These initiatives are expected to impact the contracting environment in which we do business with our DoD customers as we and others in the industry adjust our practices to address the new initiatives and the reduced level of spending by the DoD. We are taking steps internally to assess how we can respond to and support these changes, including how we can further reduce costs and increase productivity, modify how we respond to proposals and revise our areas of focus. Depending on how these initiatives are implemented, they could have an impact on current programs as well as new business opportunities. Changes to the DoD acquisition system and contracting models could affect whether and, if so, how we pursue certain opportunities and the terms under which we are able to do so. These initiatives are still fairly new; we expect to understand better the specific impacts to our business as the DoD implements them further.

Our future success depends, in part, on our ability to deliver our products and services at an affordable life cycle cost, requiring us to have and maintain technologies, facilities, equipment and a qualified workforce to meet the needs of current and future customers.

Shipbuilding is a long cycle business and our success depends on quality, cost and schedule performance on our contracts. We must have and sustain the people, technologies, facilities, equipment and financial capacity needed to deliver our products and services at an affordable life cycle cost. If we fail to maintain our competitive position, we could lose a significant amount of future business to our competitors, which would have a material adverse effect on our financial position, results of operations or cash flows, or our ability to maintain market share.
Operating results are heavily dependent upon our ability to attract and retain a sufficient number of engineers and skilled workers, at competitive costs, with requisite skills and/or security clearances. Additionally, it is important that we have stable future revenues and costs in order to maintain a qualified workforce. The necessary nuclear expertise required and the challenges of hiring and training a qualified workforce can be a limitation on our business. If qualified personnel become scarce, we could experience higher labor, recruiting or training costs in order to attract and retain such employees or could experience difficulty in performing under our contracts or pursuing new business if the needs for such employees are unmet.

**Competition within our markets and an increase in bid protests may reduce our revenues and market share.**

We believe the programs and number of ship constructions, refuelings and overhauls and inactivations currently planned by the U.S. Navy over the next several years will remain relatively steady; however, projected U.S. defense spending levels for periods beyond the near term are uncertain and difficult to predict. While the U.S. Navy’s current 30-Year Plan is based on an optimized 313-ship fleet, the plan itself anticipates procurement for only 276 ships during the 30-year period. Changes in U.S. defense spending may limit certain future market opportunities. If we are unable to continue to compete successfully against our current or future competitors, we may experience declines in revenues and market share which could negatively impact our results of operations and financial condition.

For example, in the event the U.S. Navy determines it is in its best interest to compete the DDG-51 class of ships and we are unable to win at least one out of three awarded ships, we would experience not only a loss of revenues but such an event could have a material impact on ships in production as well as on our ability to compete and construct affordable ships in the future. Such an event could also have a material adverse effect on our financial position, results of operations or cash flows.

The reduced level of shipbuilding activity by the U.S. Navy, as demonstrated by the reduction in fleet size from 566 ships in 1989 to 286 ships as of January 25, 2011, has resulted in workforce reductions in the industry, but little infrastructure consolidation. The general result has been fewer contracts awarded to the same fixed number of shipyards. There are principally six major private U.S. shipyards, three of which are our shipyards, plus numerous other smaller private shipyards that compete for contracts to construct, overhaul, repair or convert naval vessels. Northrop Grumman recently announced its intention to initiate a wind down and eventual discontinuance of our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time. After this wind down, we will have two primary shipyards. Competition for future programs is expected to be intense. Additionally, our products, such as aircraft carriers, submarines and other ships, compete with each other, as well as with other defense products and services, for defense monies. We cannot guarantee that there will not be some rationalization of shipyard capacity in the United States and that we will not be subject to shipyard consolidation or closures as a result of the reduced level of U.S. Navy spending on the construction of its naval fleet. Any further reduction could have a significant effect on our business, financial condition or results of operations.

Although we are the only company currently capable of refueling nuclear-powered carriers, we also believe that two existing government-owned shipyards, one in the U.S. Pacific Northwest and the other in the U.S. Mid-Atlantic, could refuel nuclear-powered carriers if substantial investments in facilities, personnel and training were made. U.S. Government-owned shipyards are presently involved in refueling, overhaul and inactivation of SSN-688 Los Angeles-class submarines and are capable of repairing and overhauling non-nuclear ships.

We also compete in the engineering, planning and design market with other companies that provide engineering support services. There can be no assurance that we will be the successful bidder on future U.S. Navy engineering work, including aircraft carrier research and development, submarine design and future surface combatant and amphibious assault programs.

The competitive environment is also affected by bid protests from unsuccessful bidders on new program awards. Bid protests could result in the award decision being overturned, requiring a re-bid of the contract. Even
where a bid protest does not result in a re-bid, the resolution typically extends the time until the contract activity can begin, which may reduce our earnings in the period in which the contract would otherwise have commenced.

As a U.S. Government contractor, we are subject to a number of regulations and could be adversely affected by changes in regulations or any negative findings from a U.S. Government audit or investigation.

U.S. Government contractors must comply with many significant regulations, including procurement, nuclear and other requirements. These regulations and requirements, although customary in government contracts, increase our performance and compliance costs. Our nuclear operations are subject to an enhanced regulatory environment, which mandates increased performance and compliance efforts and costs. If any such regulations or requirements change, our costs of complying with them could increase and reduce our margins.

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its various agencies such as the U.S. Navy's Supervisor of Shipbuilding, the Defense Contract Audit Agency ("DCAA") and the Defense Contract Management Agency. These agencies review our performance under our contracts, our cost structure and our compliance with applicable laws, regulations, and standards, as well as the adequacy of, and our compliance with, our internal control systems and policies. Systems that are subject to review include, but are not limited to, our accounting systems, purchasing systems, billing systems, property management and control systems, cost estimating systems, compensation systems and management information systems. Any costs found to be unallowable or improperly allocated to a specific contract will not be reimbursed or must be refunded if previously reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspension, or prohibition from doing business with the U.S. Government. Whether or not illegal activities are alleged, the U.S. Government also has the ability to decrease or withhold certain payments when it deems systems subject to its review to be inadequate. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

As with other government contractors, the U.S. Government has, from time to time, recommended that certain of our contract prices be reduced, or that costs allocated to our contracts be disallowed. Some of these recommendations involve substantial amounts. In the past, as a result of such audits and other investigations and inquiries, we have on occasion made minor adjustments to our contract prices and the costs allocated to our government contracts. We cannot guarantee that such audits, investigations and inquiries will not result in reductions of our contract prices in the future.

We are also, from time to time, subject to U.S. Government investigations relating to our operations, and we are subject to or are expected to perform in compliance with a vast array of federal laws, including but not limited to the Truth in Negotiations Act, the False Claims Act, Procurement Integrity Act, Cost Accounting Standards, the International Traffic in Arms Regulations promulgated under the Arms Export Control Act, the Close the Contractor Fraud Loophole Act and the Foreign Corrupt Practices Act. If we are convicted or otherwise found to have violated the law, or are found not to have acted responsibly as defined by the law, we may be subject to reductions of the value of contracts, contract modifications or termination and the assessment of penalties and fines, compensatory or treble damages, which could have a material adverse effect on our financial position, results of operations or cash flows. Such findings or convictions could also result in suspension or debarment from government contracting. Given our dependence on government contracting, suspension or debarment could have a material adverse effect on our financial position, results of operations or cash flows.

Many of our contracts contain performance obligations that require innovative design capabilities, are technologically complex, require manufacturing expertise or are dependent upon factors not wholly within our control and failure to meet these obligations could adversely affect our profitability and future prospects.

We design, develop and manufacture products and services applied by our customers in a variety of environments. Problems and delays in development or delivery of subcontractor components or services as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions or materials and components could prevent us from achieving contractual requirements.
First-in-class ships, also known as lead ships, usually have new technology that is either supplied by the U.S. Navy, us or other contractors. Problems in developing these new technologies or design changes later in the construction process could lead to delays in maintaining the design schedule needed for construction. The risk associated with new technology or mid-construction design changes could both increase the cost of a ship and delay delivery. For example, the new CVN-78 Gerald R. Ford-class has many new technologies with several of them still in development. Those technologies include but are not limited to EMALS (the electromagnetic aircraft launch system), AAG (the advanced arresting gear) and DBR (the dual band radar). All three of these are being developed concurrently with the ship under construction. Late delivery of information could drive inefficiencies in the construction process, increase cost and put the delivery schedule at risk, and could adversely affect our profitability and future prospects.

In addition, our products cannot be tested and proven in all situations and are otherwise subject to unforeseen problems. Examples of unforeseen problems that could negatively affect revenue and profitability include premature failure of products that cannot be accessed for repair or replacement, problems with quality or workmanship and unplanned degradation of product performance. These failures could result, either directly or indirectly, in loss of life or property. Among the factors that may affect revenue and profits could be unforeseen costs and expenses not covered by insurance or indemnification from the customer, diversion of management focus in responding to unforeseen problems, loss of follow-on work and, in the case of certain contracts, repayment to the government customer of contract cost and fee payments we previously received.

In 2009, we received notice of an investigation regarding work performed by our Gulf Coast shipyards on the LPD-17 San Antonio-class ships. While the investigation did not result in any fraud or willful misconduct being alleged, in response to the concerns regarding the quality of our products, in 2009, our Gulf Coast shipyards began implementation of a new management approach focused on better organizing and managing the construction of the ships we build. There can be no assurance that this approach will deliver high quality products in a safe, timely and cost-effective manner as intended, and there may be difficulties related to its implementation. We have also encountered various quality issues on our aircraft carrier construction and overhaul programs and our SSN-774 Virginia-class submarine construction program at our Newport News location. These include matters related to filler metal used in pipe welds identified in 2007, and in 2009, issues associated with non-nuclear weld inspection and the installation of weapons handling equipment on certain submarines. We may discover additional quality issues related to our products requiring analysis and corrective action in the future.

In addition, we have experienced several quality issues in the Gulf Coast related to our LPD-17 class of ships. In the second quarter of 2009, as a result of a review of the design, engineering and production processes undertaken as a result of leaks discovered in the LPD-17 USS San Antonio’s lube oil system, we became aware of quality issues relating to certain pipe welds on ships under production in the Gulf Coast as well as those that had previously been delivered. Since that discovery, we have been working with the customer to determine the nature and extent of the pipe weld issue and its possible impact on related shipboard systems. This effort has resulted in the preparation of a technical analysis of the problem, additional inspections on the ships, a rework plan for ships previously delivered and in various stages of production, and modifications to the work plans for ships in production. Although not fully resolved with the U.S. Navy, we believe that the incremental costs associated with the anticipated resolution of these matters have been appropriately reflected in our financial statements. In the fourth quarter of 2009, certain bearing wear and debris were found in the lubrication system of the main propulsion diesel engines (“MPDE”) installed on LPD-21. We are participating with the U.S. Navy and other industry participants involved with the MPDEs in a review panel to examine the MPDE lubrication system’s design, construction, operation and maintenance for the LPD-17 class of ships. To date, the review has identified several potential system improvements for increasing the system reliability and certain changes are being implemented on ships under construction at this time. We continue to work in partnership to investigate and identify any additional corrective actions to address quality issues and will implement appropriate corrective actions consistent with our contractual and legal obligations. The U.S. Navy has requested that a special MPDE flush procedure be used on LPDs 22 through 25 under construction at our Gulf Coast facilities. We have informed the U.S. Navy of our position that should they direct us to use this new flush procedure, we believe such direction would be a change to the contracts for all LPDs under construction, and that such a change would entitle us to an equitable adjustment to cover the cost and schedule impacts. However, we can give no assurance that the U.S. Navy will agree that any such direction would constitute a contract change.
We cannot make assurances that potential undiscovered issues would not have a material adverse effect on our financial position, results of operations or cash flows in the future. See “—Our results of operations depend on the award of new contracts.”

We may not realize the anticipated benefits related to the wind down of our construction activities at Avondale, our Louisiana shipyard, and two Louisiana components facilities and the consolidation of all Gulf Coast construction into our Mississippi facilities.

In July 2010, Northrop Grumman announced its intention to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013, after completing LPD-17 San Antonio-class ships currently under construction, and consolidate all Gulf Coast construction into our Mississippi facilities. Future LPD-class ships will be built in a single production line at our Pascagoula, Mississippi facility. The consolidation is intended to reduce costs, increase efficiency and address shipbuilding overcapacity. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time. We cannot provide any assurances that consolidation of shipbuilding activities in our Pascagoula and Gulfport facilities will result in our realization of benefits from serial production at those facilities. In connection with the increased utilization of our employees and facilities in our Pascagoula shipyard, we may encounter difficulties in adhering to back-to-back production schedules. An inability to adhere to production schedules could have an adverse effect on our ability to timely perform under our contracts and to obtain new contracts in the future. Furthermore, because our workforce will be located primarily in two locations, we may not be able to attract and retain a sufficient number of skilled and trained employees to perform the increased workload in Pascagoula and Gulfport. Any failure to attract and retain the necessary workforce, or to effectively manage and control third-party contractors, could adversely affect our ability to perform under our contracts and could have a material adverse effect on our financial position, results of operations or cash flows. Additionally, due to the consolidation, we expect higher costs to complete ships currently under construction in Avondale due to anticipated reductions in productivity, and have increased the estimates to complete for LPDs 23 and 25 by approximately $210 million, which caused us to recognize a $113 million pre-tax charge to second quarter 2010 operating income.

In addition, we anticipate that we will incur substantial restructuring-related costs and asset write-downs currently estimated at $310 million related to the wind down of our operations at Avondale. We have assumed that substantially all of the restructuring expenses associated with the wind down of those operations will be recoverable and amortized as future allowable costs over five years based upon applicable government regulations governing internal restructuring activities and/or based upon other Federal Acquisition Regulation (“FAR”) allowable contract cost provisions. In a preliminary assessment of our proposed treatment of the wind down costs, the U.S. Navy noted that it has initial concerns regarding the allowability of selected elements of our restructuring proposal. The DCAA, a DoD agency, prepared an initial audit report on our cost proposal for the restructuring and shutdown related costs, in which it stated that, in general, the proposal was not adequately supported in order for it to reach a conclusion. The DCAA also questioned about $25 million (approximately 8%) of the costs submitted. The DCAA stated that it could not reach a final conclusion on the cost submission due to the potential spin-off transaction. Accordingly, the DCAA did not accept the cost proposal as submitted, and we intend to resubmit our proposal to address the concerns expressed by DCAA. Should these costs be further challenged by the U.S. Navy, it could create uncertainty as to the timing, allocation and eventual allowability of the restructuring costs related to the wind down of the Avondale facility. We do not have an agreement with our customer in place regarding the government contract accounting and pricing treatment of these costs. The actual restructuring expenses related to the wind down may be greater than our current estimate and any inability to recover such costs could result in a material adverse effect on our financial position, results of operations or cash flows.

We use estimates when accounting for contracts. Changes in estimates could affect our profitability and our overall financial position.

Contract accounting requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and costs at completion is complicated and subject to many variables. For new
programs, we estimate, negotiate and contract for construction on ships that are not completely designed. Therefore, assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues for these ships is subject to the variability of the final ship design and evolving scope of work. For all ships, assumptions have to be made regarding the length of time to complete the contract because costs also include expected increases in wages and prices for materials. Similarly, assumptions have to be made regarding the future impact of our efficiency initiatives and cost reduction efforts. Incentives, awards or penalties related to performance on contracts are considered in estimating revenue and profit rates, and are recorded when there is sufficient information to assess anticipated performance.

Because of the significance of the judgment and estimation processes described above, it is possible that materially different amounts could be obtained if different assumptions were used or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may have a material adverse effect upon future period financial reporting and performance. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies.”

Our business is subject to disruption caused by natural disasters, environmental disasters and other factors that could have a material adverse effect on our financial position, results of operations or cash flows.

We have significant operations located in regions of the United States that have been and may be exposed to damaging storms, such as hurricanes, and environmental disasters, such as oil spills. Although preventative measures may help to mitigate damage, the damage and disruption resulting from natural and environmental disasters may be significant. Should insurance or other risk transfer mechanisms be unavailable or insufficient to recover all costs, we could experience a material adverse effect on our financial position, results of operations or cash flows. See “—Our insurance coverage may be inadequate to cover all of our significant risks or our insurers may deny coverage of material losses we incur, which could adversely affect our profitability and overall financial position.”

Our suppliers and subcontractors are also subject to natural and environmental disasters that could affect their ability to deliver or perform under a contract. Performance failures by our subcontractors due to natural or environmental disasters may adversely affect our ability to perform our obligations on the prime contract, which could reduce our profitability due to damages or other costs that may not be fully recoverable from the subcontractor or from the customer or our insurers and could result in a termination of the prime contract and have an adverse effect on our ability to compete for future contracts.

Natural disasters can also disrupt our workforce, electrical and other power distribution networks, including computer and internet operation and accessibility, and the critical industrial infrastructure needed for normal business operations. These disruptions could cause adverse effects on our profitability and performance. Environmental disasters, particularly oil spills in waterways and bodies of water used for the transport and testing of our ships, can disrupt the timing of our performance under our contracts with the U.S. Navy and the U.S. Coast Guard.

Our insurance coverage may be inadequate to cover all of our significant risks or our insurers may deny coverage of material losses we incur, which could adversely affect our profitability and overall financial position.

We endeavor to identify and obtain, in established markets, insurance agreements to cover significant risks and liabilities (including, among others, natural disasters, product liability and business interruption). Not every risk or liability can be protected by insurance, and, for insurable risks, the limits of coverage reasonably obtainable in the market may not be sufficient to cover all actual losses or liabilities incurred, including, for example, a catastrophic hurricane claim. In some, but not all, circumstances, we may receive indemnification from the U.S. Government. Because of the limitations in overall available coverage referred to above, we may have to bear substantial costs for uninsured losses that could have a material adverse effect on our financial position, results of operations or cash flows. Additionally, disputes with insurance carriers over coverage may affect the timing of cash flows and, if litigation with the carrier becomes necessary, an outcome unfavorable to us may have a material adverse effect on our financial position, results of operations or cash flows.

We are pursuing legal action against an insurance provider, Factory Mutual Insurance Company (“FM Global”), arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see
Notes to Consolidated Financial Statements—Note 15. Legal action was commenced against FM Global on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the District Court issued an order finding that the excess insurance policy provided coverage for Katrina-related losses. FM Global appealed the District Court’s order and on August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of Northrop Grumman’s interest, holding that the FM Global excess policy unambiguously excludes damage from the storm surge caused by Hurricane Katrina under its “Flood” exclusion. The Ninth Circuit remanded the case to the District Court to determine whether the California efficient proximate cause doctrine affords coverage sought by the company under the policy even if the Flood exclusion of the policy is unambiguous. On April 2, 2009, the Ninth Circuit denied Northrop Grumman’s Petition for Rehearing and remanded the case to the District Court. On June 10, 2009, Northrop Grumman filed a motion seeking leave of court to file a complaint adding Aon Risk Services, Inc. of Southern California (“Aon”) as a defendant. On July 1, 2009, FM Global filed a motion for partial summary judgment seeking a determination that the California efficient proximate cause doctrine is not applicable or that it affords no coverage under the policy. On August 26, 2010, the District Court denied Northrop Grumman’s motion to add Aon as a defendant to the case pending in federal court, finding that Northrop Grumman has a viable option to bring suit against Aon in state court. Also on August 26, the District Court granted FM Global’s motion for summary judgment based upon California’s doctrine of efficient proximate cause, and denied FM Global’s motion for summary judgment based upon breach of contract, finding that triable issues of fact remained as to whether and to what extent we sustained wind damage apart from the storm surge that inundated our Pascagoula facility. The District Court has scheduled trial on the merits for April 3, 2012. On January 27, 2011, Northrop Grumman filed an action against Aon Insurance Services West, Inc., formerly known as Aon Risk Services, Inc. of Southern California, in Superior Court in California alleging breach of contract, professional negligence, and negligent misrepresentation. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of these matters.

During 2008, notification from Munich-American Risk Partners (“Munich Re”), the only remaining insurer within the primary layer of insurance coverage with which a resolution has not been reached, was received noting that it will pursue arbitration proceedings against Northrop Grumman related to approximately $19 million owed by Munich Re to Northrop Grumman Risk Management Inc. (“NGRMI”), a wholly owned subsidiary of Northrop Grumman, for certain losses related to Hurricane Katrina. An arbitration was later invoked by Munich Re in the United Kingdom under the reinsurance contract. Northrop Grumman was also notified that Munich Re is seeking reimbursement of approximately $44 million of funds previously advanced to NGRMI for payment of claim losses of which Munich Re provided reinsurance protection to NGRMI pursuant to an executed reinsurance contract, and $6 million of adjustment expenses. The arbitral panel has set a hearing for November 14, 2011. We believe that NGRMI is entitled to full reimbursement of its covered losses under the reinsurance contract and has substantive defenses to the claim of Munich Re for return of the funds paid to date, but can make no assurances as to the outcome of this matter. Payments to be made to NGRMI in connection with this matter would be for the benefit of our accounts, and reimbursements to be made to Munich Re would be made by us, if any.

Our business could suffer if we are unsuccessful in negotiating new collective bargaining agreements.

Approximately 50% of our approximately 39,000 employees are covered by a total of 10 collective bargaining agreements. We expect to re-negotiate renewals of each of our collective bargaining agreements between 2012 and 2014 as they approach expiration. Collective bargaining agreements generally expire after three to five years and are subject to renegotiation at that time. While we believe we maintain good relationships with our represented workers, and it is not expected that the results of these negotiations will have a material adverse effect on our financial position, results of operations or cash flows, it is possible that we may experience difficulties with renewals and renegotiations of existing collective bargaining agreements. If we experience such difficulties, we could incur additional expenses and work stoppages. Any such expenses or delays could adversely affect programs served by employees who are covered by collective bargaining agreements. In the recent past, we have experienced some work stoppages, strikes and other labor disruptions associated with the collective bargaining of new labor agreements.
Pension and medical expenses associated with our retirement benefit plans may fluctuate significantly depending upon changes in actuarial assumptions, future market performance of plan assets, future trends in health care costs and legislative or other regulatory actions.

A substantial portion of our current and retired employee population is covered by pension plans, the costs of which are dependent upon various assumptions, including estimates of rates of return on benefit-related assets, discount rates for future payment obligations, rates of future cost growth and trends for future costs. Variances from these estimates could have a material adverse effect on our financial position, results of operations or cash flows. See “Notes to Consolidated Financial Statements—Note 16.” In addition, funding requirements for benefit obligations of our pension plans are subject to legislative and other government regulatory actions. For example, due to government regulations, pension plan cost recoveries under our government contracts may occur in different periods from when those pension costs are accrued for financial statement purposes or when pension funding is made. Timing differences between pension costs accrued for financial statement purposes or when pension funding occurs compared to when such costs are recoverable as allowable costs under our government contracts could have a material adverse effect on our cash flow from operations.

In addition, on May 10, 2010, the U.S. Cost Accounting Standards (“CAS”) Board published a Notice of Proposed Rulemaking (“NPRM”) that, if adopted, would provide a framework to partially harmonize the CAS rules with the Pension Protection Act of 2006 (“PPA”) funding requirements. As with the Advance Notice of Proposed Rulemaking (“ANPRM”) that was issued on September 2, 2008, the NPRM would “harmonize” by partially mitigating the mismatch between CAS costs and PPA-amended ERISA minimum funding requirements. Compared to the ANPRM, the NPRM simplifies the rules and the transition process, and results in an acceleration of allowable CAS pension costs over the next five years as compared with our current CAS pension costs. Until the final rule is published, and to the extent that the final rule does not completely eliminate mismatches between ERISA funding requirements and CAS pension costs, government contractors maintaining defined benefit pension plans will continue to experience a timing mismatch between required contributions and pension expenses recoverable under CAS. Although the CAS Board may issue its final rule in 2010, we do not expect the rule to be issued until 2011. The final rule is expected to apply to contracts starting the year following the award of the first CAS covered contract after the effective date of the new rule. This would mean the rule would most likely apply to our contracts in 2011 or 2012. We anticipate that contractors will be entitled to an equitable adjustment for any additional CAS contract costs resulting from the final rule.

Unforeseen environmental costs could have a material adverse effect on our financial position, results of operations or cash flows.

Our operations are subject to and affected by a variety of federal, state and local environmental protection laws and regulations. In addition, we could be affected by future laws or regulations, including those imposed in response to climate change concerns or other actions commonly referred to as “green initiatives.” To comply with current and future environmental laws and regulations and to meet this goal, we expect to incur capital and operating costs.

The nature of shipbuilding operations requires the use of hazardous materials. Our shipyards also generate significant quantities of wastewater, which we treat before discharging pursuant to various permits. In order to handle these materials, our shipyards have an extensive network of above-ground and underground storage tanks, some of which have leaked and required remediation in the past. In addition, the extensive handling of these materials sometimes results in spills in the shipyards and occasionally in the adjacent rivers and waterways where we operate. The shipyards also have extensive waste handling programs that we maintain and periodically modify consistent with changes in applicable regulations. See “Business—Environmental, Health and Safety.”

Various federal, state and local environmental laws and regulations impose limitations on the discharge of pollutants into the environment and establish standards for the transportation, storage and disposal of toxic and hazardous wastes. Stringent fines and penalties may be imposed for noncompliance and certain environmental laws impose joint and several “strict liability” for remediation of spills and releases of oil and hazardous substances rendering a person liable for environmental clean-up and remediation costs and damage, without regard to negligence or fault on the part of such person. Such laws and regulations may expose us to liability for the conduct of or conditions caused by Northrop Grumman and others.
Environmental laws and regulations can also impose substantial fines and criminal sanctions for violations, and may require the installation of costly pollution control equipment or operational changes to limit pollution emissions or discharges and/or decrease the likelihood of accidental hazardous substance releases. We also incur, and expect to continue to incur, costs to comply with current federal and state environmental laws and regulations related to the cleanup of pollutants previously released into the environment. In addition, if we are found to be in violation of the Federal Clean Air Act or the Clean Water Act, the facility or facilities involved in the violation could be placed by the U.S. Environmental Protection Agency (the "EPA") on the "Excluded Parties List" maintained by the General Services Administration. The listing would continue until the EPA concludes that the cause of the violation had been cured. Listed facilities cannot be used in performing any U.S. Government contract while they are listed by the EPA.

The adoption of new laws and regulations, stricter enforcement of existing laws and regulations, imposition of new cleanup requirements, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, our ability to recover such costs under previously priced contracts or financial insolvency of other responsible parties could cause us to incur costs in the future that could have a material adverse effect on our financial position, results of operations or cash flows.

On June 4, 2010, the EPA proposed new regulations at 40 CFR Part 63 Subpart DDDD entitled “National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial, and Institutional Boilers and Process Heaters.” NGSB owns and operates five residual oil-fired industrial boilers for supplying process and building steam along with supplying high pressure steam to ships under construction. We believe that these boilers will be significantly adversely affected by these regulations, if adopted as proposed. The capital cost to replace these could be significant. However, on December 2, 2010, the EPA official responsible for these regulations stated publicly that the proposed emissions limits in the regulation were unachievable. On December 7, 2010, the EPA filed papers in court to secure an extension of up to 15 months on the current judicial deadline governing these regulations in order to repropose a revised set of regulations. As of this time, the court has not ruled on the EPA’s extension request.

Northrop Grumman recently announced its intention to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. The transition plan, covering a period of more than two years, provides the opportunity to work with federal, state and local officials and others to explore other uses for the Avondale facility, allowing time for an orderly adjustment of the Avondale workforce. It is possible that the winding down of operations at Avondale may result in environmental costs. However, these costs are not known and cannot be reasonably estimated at this time.

**Market volatility and adverse capital or credit market conditions may affect our ability to access cost-effective sources of funding and expose us to risks associated with the financial viability of suppliers and the ability of counterparties to perform on financial instruments.**

The financial and credit markets recently experienced high levels of volatility and disruption, reducing the availability of credit for certain issuers. We expect to access these markets to support certain business activities, including acquisitions, capital expansion projects, obtaining credit support for our self-insurance for workers’ compensation, refinancing existing debt and issuing letters of credit. In the future, we may not be able to obtain capital market financing or bank financing on favorable terms, or at all, which could have a material adverse effect on our financial position, results of operations or cash flows.

A tightening of credit could also adversely affect our suppliers’ ability to obtain financing. Delays in suppliers’ ability to obtain financing, or the unavailability of financing, could cause us to be unable to meet our contract obligations and could adversely affect our results of operations. The inability of our suppliers to obtain financing could also result in the need for us to transition to alternate suppliers, which could result in significant incremental cost and delay.

We may execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional parties. These transactions expose us to potential credit risk in the event of default of a counterparty. In addition, our credit risk may be increased when
collateral held by us cannot be realized upon a sale or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to it.

**Our reputation and our ability to do business may be impacted by the improper conduct of employees, agents or business partners.**

We have implemented extensive compliance controls, policies and procedures to prevent and detect reckless or criminal acts committed by employees, agents or business partners that would violate the laws of the jurisdictions in which we operate, including laws governing payments to government officials, security clearance breaches, cost accounting and billing, competition and data privacy. However, we cannot ensure that we will prevent all such reckless or criminal acts committed by our employees, agents or business partners. Any improper actions could subject us to civil or criminal investigations and monetary and non-monetary penalties, and could have a material adverse effect on our reputation, financial position, results of operations or cash flows.

**Our business could be negatively impacted by security threats and other disruptions.**

As a defense contractor, we face certain security threats, including threats to our information technology infrastructure and unlawful attempts to gain access to our proprietary or classified information. Our information technology networks and related systems are critical to the smooth operation of our business and essential to our ability to perform day-to-day operations. Loss of security within this critical operational infrastructure could disrupt our operations, require significant management attention and resources and could have a material adverse effect on our financial position, results of operations or cash flows.

**Our nuclear operations subject us to various environmental, regulatory, financial and other risks.**

The development and operation of nuclear-powered aircraft carriers, nuclear-powered submarines, nuclear facilities and other nuclear operations subject us to various risks, including:

- potential liabilities relating to harmful effects on the environment and human health resulting from nuclear operations and the storage, handling and disposal of radioactive materials;
- unplanned expenditures relating to maintenance, operation, security and repair, including repairs required by the Nuclear Regulatory Commission;
- reputational harm;
- potential liabilities arising out of a nuclear incident whether or not it is within our control; and
- regulatory non-compliance and loss of authorizations or indemnification necessary for operations.

The U.S. Government provides indemnity protection against specified risks under our contracts pursuant to Public Law 85-804 and the Price-Anderson Nuclear Industries Indemnity Act for certain of our nuclear operations risks. Our nuclear operations are subject to various safety-related requirements imposed by the U.S. Navy, DoE and Nuclear Regulatory Commission. In the event of noncompliance, these agencies may increase regulatory oversight, impose fines or shut down our operations, depending upon the assessment of the severity of the situation. Our activities, especially our nuclear shipbuilding operations, are considered vitally important to the U.S. Navy. As such, in the event of a potential change in control, we believe the U.S. Navy would want to be comfortable with the buyer and ensure that the buyer would continue to conduct our operations in a satisfactory manner. More specifically, in the event of a change in control, we believe the U.S. Navy and other regulatory agencies would want to assure themselves that our nuclear operations would continue to be conducted in a manner consistent with regulatory and contract requirements and that they should continue to provide the authorizations and indemnification necessary to conduct our nuclear operations. Depending on the circumstances, they could withdraw authorizations or decline to extend indemnification to new contracts, which could have a material adverse effect on our financial position, results of operations or cash flows. We have recently begun discussions with the U.S. Navy regarding whether to incorporate into our contracts more explicit terms regarding the requirements for U.S. Navy approval before transferring authorizations in the event of changes in control; we understand these discussions are part of a U.S. Navy initiative across our shipbuilding industry. In addition, revised security and safety requirements...
promulgated by the U.S. Navy, DoE and Nuclear Regulatory Commission could necessitate substantial capital and other expenditures. Additionally, while we maintain insurance for certain risks related to transportation of low level nuclear materials and waste, such as contaminated clothing, and for regulatory changes in the health, safety and fire protection areas, there can be no assurances that such insurance will be sufficient to cover our costs in the event of an accident or business interruption relating to our nuclear operations, which could have a material adverse effect on our financial position, results of operations or cash flows.

Changes in future business conditions could cause business investments and/or recorded goodwill to become impaired, resulting in substantial losses and write-downs that would reduce our operating income.

As part of our overall strategy, we may, from time to time, acquire a minority or majority interest in a business. These investments are made upon careful analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining acquisition price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. Goodwill accounts for approximately a quarter of our recorded total assets. In the past, we have evaluated goodwill amounts for impairment annually on November 30, or when evidence of potential impairment exists. The impairment test is based on several factors requiring judgment. Principally, a significant decrease in expected cash flows or changes in market conditions may indicate potential impairment of recorded goodwill. Adverse equity market conditions that result in a decline in market multiples and our stock price could result in an impairment of goodwill and/or other intangible assets.

For example, we recorded a non-cash charge totaling $2,490 million in the fourth quarter of 2008 for the impairment of goodwill. The impairment was primarily driven by adverse equity market conditions that caused a decrease in market multiples and the parent’s stock price as of November 30, 2008. The charge reduced goodwill recorded in connection with Northrop Grumman’s 2001 acquisition of Newport News Shipbuilding, Inc. and Litton Industries, Inc. (“Litton”).

If we are required in the future to recognize any additional impairments to goodwill, it could have a material adverse effect on our financial position, results of operations or cash flows.

Unanticipated changes in our tax provisions or exposure to additional income tax liabilities could affect our profitability and cash flow.

We are subject to income taxes in the United States. Significant judgment is required in determining our provision for income taxes. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. In addition, timing differences in the recognition of income from contracts for financial statement purposes and for income tax regulations can cause uncertainty with respect to the timing of income tax payments which can have a significant impact on cash flow in a particular period. Furthermore, changes in applicable income tax laws and regulations, or their interpretation, could result in higher or lower income tax rates assessed or changes in the taxability of certain sales or the deductibility of certain expenses, thereby affecting our income tax expense and profitability. The final determination of any tax audits or related litigation could be materially different from our historical income tax provisions and accruals. Additionally, changes in our tax rate as a result of changes in our overall profitability, changes in tax legislation, changes in the valuation of deferred tax assets and liabilities, changes in differences between financial reporting income and taxable income, the results of audits and the examination of previously filed tax returns by taxing authorities and continuing assessments of our tax exposures could impact our tax liabilities and affect our income tax expense, profitability and cash flow.

As of December 31, 2010, the estimated value of our uncertain tax positions was a potential liability of $17 million, which includes accrued interest of $3 million. If our positions are sustained by the taxing authority in our favor, the reversal of the entire balance would reduce our income tax provision. However, we cannot guarantee that such positions will be sustained in our favor.
We conduct a portion of our operations through joint ventures and strategic alliances. We may have limited control over decisions and controls of joint venture projects and have returns that are not proportional to the risks and resources we contribute.

We conduct a portion of our operations through joint ventures, where control may be shared with unaffiliated third parties. For more information, see “Business—Our Business.”

In any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues, and we cannot guarantee that we and our joint venture partners will always reach agreement on a timely basis, or at all. We also cannot control the actions of our joint venture partners, including any nonperformance, default or bankruptcy of our joint venture partners, and we typically share liability or have joint and/or several liability along with our joint venture partners under these joint venture arrangements. These factors could potentially have a material adverse effect on our joint ventures.

Operating through joint ventures in which we are the minority holder results in limited control over many decisions made with respect to projects and internal controls relating to projects. These joint ventures may not be subject to the same requirements regarding internal controls and internal control reporting that we follow. As a result, internal control issues may arise which could have a material adverse effect on the joint venture. When entering into joint ventures, in order to establish or preserve relationships with our joint venture partners, we may agree to risks and contributions of resources that are proportionately greater than the returns we could receive, which could reduce our income and returns on these investments compared to what we would have received if the risks and resources we contributed were always proportionate to our returns.

Accordingly, our financial results could be adversely affected from unanticipated performance issues, transaction-related charges and partner performance.

We are subject to various claims and litigation that could ultimately be resolved against us, requiring material future cash payments and/or future material charges against our operating income, materially impairing our financial position.

The size, type and complexity of our business make it highly susceptible to claims and litigation. We are and may become subject to various environmental claims and other litigation which, if not resolved within established reserves, could have a material adverse effect on our financial position, results of operations or cash flows. Any claims and litigation, even if fully indemnified or insured, could negatively impact our reputation among our customers and the public, and make it more difficult for us to compete effectively or obtain adequate insurance in the future. These claims and litigation relating to our shipbuilding business are intended to be allocated to us under the terms of the Separation and Distribution Agreement. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Separation and Distribution Agreement.”

In the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Modernization Program for eight converted 123-foot patrol boats (the “vessels”) based on alleged “hull buckling and shaft alignment problems” and alleged “nonconforming topside equipment” on the vessels. We submitted a written response that argued that the revocation of acceptance was improper. The U.S. Coast Guard advised Integrated Coast Guard Systems (“ICGS”), which was formed by us and Lockheed Martin to perform the Deepwater Modernization Program, that it was seeking $96.1 million from ICGS as a result of the revocation of acceptance. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with us and one of our subcontractors. In 2008, the U.S. Coast Guard advised ICGS that the U.S. Coast Guard would support an investigation by the U.S. Department of Justice of ICGS and its subcontractors instead of pursuing its $96.1 million claim independently. The Department of Justice conducted an investigation of ICGS under a sealed False Claims Act complaint filed in the U.S. District Court for the Northern District of Texas and decided in early 2009 not to intervene at that time. On February 12, 2009, the District Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against us, ICGS, Lockheed Martin Corporation relating to the 123-foot conversion effort. Damages under the False Claims Act are subject to trebling. On October 15, 2009, the three defendants moved to dismiss the Fifth Amended complaint. On April 5, 2010, the District Court ruled on the defendants’ motions to dismiss, granting them in part and denying them in part. As to us, the District Court
dismissed conspiracy claims and those pertaining to the C4ISR systems. On October 27, 2010, the District Court entered summary judgment for us on DeKort’s hull, mechanical and electrical (“HM&E”) claims brought against us. On November 10, 2010, DeKort acknowledged that with the dismissal of the HM&E claims, no issues remained against us for trial and the District Court subsequently vacated the December 1, 2010 trial. On November 12, 2010, DeKort filed a motion for reconsideration regarding the District Court’s denial of his motion to amend the Fifth Amended complaint. On November 19, 2010, DeKort filed a second motion for reconsideration regarding the District Court’s order granting summary judgment on the HM&E claims. Based upon the information available to us to date, we believe that we have substantive defenses to any potential claims but can give no assurance that we will prevail in this litigation.

We and our predecessors in interest are defendants in several hundred cases filed in numerous jurisdictions around the country wherein former and current employees and various third parties allege exposure to asbestos-containing materials on or associated with our premises or while working on vessels constructed or repaired by us. Some cases allege exposure to asbestos-containing materials through contact with our employees and third persons who were on the premises. The cases allege various injuries including those associated with pleural plaque disease, asbestosis, cancer, mesothelioma and other alleged asbestos-related conditions. In some cases, in addition to us, several of our former executive officers are also named defendants. In some instances, partial or full insurance coverage is available to us for our potential liability and that of our former executive officers. We can give no assurance that we will prevail on all claims in each of these cases. Based on information available, we believe that the resolution of any existing claims or legal proceedings would not have a material adverse effect on our financial position, results of operations or cash flows.

On January 31, 2011, the U.S. Department of Justice first informed Northrop Grumman and us of a False Claims Act complaint that we believe was filed under seal by a relator (the plaintiff) in mid-2010 in the U.S. District Court for the District of Columbia. The redacted copy of the complaint that we received (the “Complaint”) alleges that through largely unspecified fraudulent means, Northrop Grumman and we obtained federal funds that were restricted by law for the consequences of Hurricane Katrina, and used those funds to cover costs under certain shipbuilding contracts that were unrelated to Hurricane Katrina and for which Northrop Grumman and we were not entitled to recovery under the contracts. The Complaint seeks monetary damages of at least $835 million, plus penalties, attorney’s fees and other costs of suit. Damages under the False Claims Act may be trebled upon a finding of liability.

For several years, Northrop Grumman has pursued recovery under its insurance policies for Hurricane Katrina-related property damage and business interruption losses. One of the insurers involved in those actions has made allegations that overlap significantly with certain of the issues raised in the Complaint, including allegations that Northrop Grumman and we used certain Hurricane Katrina-related funds for losses under the contracts unrelated to the hurricane. Northrop Grumman and we believe that the insurer’s defenses, including those related to the use of Hurricane Katrina funding, are without merit.

We have agreed to cooperate with the government investigation relating to the False Claims Act Complaint. We have been advised that the Department of Justice has not made a decision whether to intervene. Based upon our review to date of the information available to us, we believe we have substantive defenses to the allegations in the Complaint. We believe that the claims as set forth in the Complaint evidence a fundamental lack of understanding of the terms and conditions in our shipbuilding contracts, including the post-Katrina modifications to those contracts, and the manner in which the parties performed in connection with the contracts. Based upon our review to date of the information available to us, we believe that the claims as set forth in the Complaint lack merit and are not likely to result in a material adverse effect on our consolidated financial position. We intend vigorously to defend the matter, but we cannot predict what new or revised claims might be asserted or what information might come to light so can give no assurances regarding the ultimate outcome.

*We may be unable to adequately protect our intellectual property rights, which could affect our ability to compete.*

We own or have the right to use certain patents, trademarks, copyrights and other forms of intellectual property. The U.S. Government has rights to use certain intellectual property we develop in performance of government

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contracts, and it may use or authorize others to use such intellectual property. Our intellectual property is subject to challenge, invalidation, misappropriation or circumvention by third parties.

We also rely upon proprietary technology, information, processes and know-how that are not protected by patents. We seek to protect this information through trade secret or confidentiality agreements with our employees, consultants, subcontractors and other parties, as well as through other security measures. These agreements may not provide meaningful protection for our unpatented proprietary information. In the event our intellectual property rights are infringed, we may not have adequate legal remedies to maintain our intellectual property. Litigation to determine the scope of our rights, even if successful, could be costly and a diversion of management’s attention away from other aspects of our business. In addition, trade secrets may otherwise become known or be independently developed by competitors.

In some instances, we have licensed the proprietary intellectual property of others, but we may be unable in the future to secure the necessary licenses to use such intellectual property on commercially reasonable terms.

Risks Relating to the Spin-Off

We may incur greater costs as an independent company than we did when we were part of Northrop Grumman.

As a current subsidiary of Northrop Grumman, we take advantage of Northrop Grumman’s size and purchasing power in procuring certain goods and services such as insurance and health care benefits, and technology such as computer software licenses. We also rely on Northrop Grumman to provide various corporate functions. After the spin-off, as a separate, independent entity, we may be unable to obtain these goods, services and technologies at prices or on terms as favorable to us as those we obtained prior to the distribution. We may also incur costs for functions previously performed by Northrop Grumman that are higher than the amounts reflected in our historical financial statements, which could cause our profitability to decrease.

We have incurred new indebtedness in connection with the spin-off and the degree to which we will be leveraged following completion of the spin-off may have a material adverse effect on our financial position, results of operations or cash flows.

We have historically relied upon Northrop Grumman for working capital requirements on a short-term basis and for other financial support functions. After the spin-off, we will not be able to rely on the earnings, assets or cash flow of Northrop Grumman, and we will be responsible for servicing our own debt, obtaining and maintaining sufficient working capital and paying dividends. In connection with the spin-off, we will receive $1,200 million of HII Debt and $575 million from the HII Credit Facility. $1,429 million of the proceeds of the HII Debt and the HII Credit Facility will be transferred to NGSC, a wholly owned subsidiary of Northrop Grumman, in the Contribution prior to the spin-off. Given the smaller relative size of the company as compared to Northrop Grumman after the spin-off, we expect to incur higher debt servicing costs on the new indebtedness than we would have otherwise incurred previously as a subsidiary of Northrop Grumman. Our debt upon completion of the spin-off will include (i) a Loan Agreement between Ingalls Shipbuilding, Inc. (“Ingalls”), which is now part of NGSB, and the MBFC, under which we borrowed the proceeds of the MBFC’s 1999 issuance of $83.7 million of Economic Development Revenue Bonds, (ii) a Loan Agreement between Northrop Grumman Ship Systems, Inc. (“NGSS”), which is now part of NGSB, and the MBFC, under which we borrowed the proceeds of the MBFC’s issuance of $200 million of Gulf Opportunity Zone Industrial Revenue Bonds, and under which we owe $21.6 million, (iii) $1,200 million of the HII Debt and (iv) the $1,225 million HII Credit Facility (comprising a $575 million term loan and a $650 million revolving credit facility, of which approximately $137 million of letters of credit are expected to be issued but undrawn at the time of the spin-off, and the remaining $513 million of which will be unutilized at that time). The net proceeds of the HII Debt and the term loan under the HII Credit Facility are expected to be used to fund the Contribution and for general corporate purposes.

Our ability to make payments on and to refinance our indebtedness, including the debt retained or incurred pursuant to the spin-off as well as any future debt that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are not able to
repay or refinance our debt as it becomes due, we may be forced to sell assets or take other disadvantageous actions, including (i) reducing financing in the future for working capital, capital expenditures and general corporate purposes or (ii) dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in the shipbuilding and defense industries could be impaired. The lenders who hold such debt could also accelerate amounts due, which could potentially trigger a default or acceleration of our other debt.

The shipbuilding business is more capital-intensive than most other Northrop Grumman businesses, and our ability to meet our capital needs may be altered by the loss of financial support from Northrop Grumman.

The shipbuilding business is a mature business that is more capital-intensive than most of Northrop Grumman’s other businesses, with longer periods of performance. Northrop Grumman is currently available to provide certain capital that may be needed in excess of the amounts generated by our operating activities. After completion of the spin-off, we will be an independent, publicly owned company and we expect to obtain any such funds needed from third parties through the capital markets or bank financing, and not from Northrop Grumman. However, there is no guarantee that we will be able to obtain capital market financing or credit availability on favorable terms, or at all, in the future. See “—Market volatility and adverse capital or credit market conditions may affect our ability to access cost-effective sources of funding and expose us to risks associated with the financial viability of suppliers and the ability of counterparties to perform on financial instruments.” While our business plan fully supports the capital expenditures we anticipate, we can give no assurance that our ability to meet our capital needs will not be altered by the loss of financial support from Northrop Grumman.

We may be unable to achieve some or all of the benefits that we expect to achieve from the spin-off.

As an independent, publicly owned company, we believe that our business will benefit from, among other things, (i) greater strategic focus of financial resources and management’s efforts, (ii) tailored customer focus, (iii) direct and differentiated access to capital markets and (iv) enhanced investor choices by offering investment opportunities in a separate entity from Northrop Grumman. However, by separating from Northrop Grumman, we may be more susceptible to market fluctuations and other adverse events than we would have been were we still a part of Northrop Grumman. In addition, we may not be able to achieve some or all of the benefits that we expect to achieve as an independent company in the time we expect, if at all.

We may increase our debt or raise additional capital in the future, which could affect our financial health, and may decrease our profitability.

We may increase our debt or raise additional capital in the future, subject to restrictions in our debt agreements. If our cash flow from operations is less than we anticipate, or if our cash requirements are more than we expect, we may require more financing. However, debt or equity financing may not be available to us on terms acceptable to us, if at all. If we incur additional debt or raise equity through the issuance of our preferred stock, the terms of the debt or our preferred stock issued may give the holders rights, preferences and privileges senior to those of holders of our common stock, particularly in the event of liquidation. The terms of the debt may also impose additional and more stringent restrictions on our operations than we currently have. If we raise funds through the issuance of additional equity, your ownership in us would be diluted. If we are unable to raise additional capital when needed, it could affect our financial health, which could negatively affect your investment in us. Also, regardless of the terms of our debt or equity financing, the amount of our stock that we can issue may be limited because the issuance of our stock may cause the distribution to be a taxable event for Northrop Grumman under Section 355(e) of the Code and under the Tax Matters Agreement we could be required to indemnify Northrop Grumman for that tax. See “—We may be responsible for U.S. Federal income tax liabilities that relate to the distribution.”

We may be responsible for U.S. Federal income tax liabilities that relate to the distribution.

We have received the IRS Ruling and expect to receive an opinion of counsel stating that Northrop Grumman, Northrop Grumman’s stockholders and HII will not recognize any taxable income, gain or loss for U.S. Federal income tax purposes as a result of the spin-off, including the internal reorganization, except with respect to cash received by Northrop Grumman’s stockholders in lieu of fractional shares. Receipt of the IRS Ruling and opinion of
counsel will satisfy a condition to completion of the spin-off. See “The Spin-Off—U.S. Federal Income Tax Consequences of the Spin-Off.” The IRS Ruling, while generally binding upon the IRS, is based on certain factual statements and representations. If any such factual statements or representations were incomplete or untrue in any material respect, or if the facts on which the IRS Ruling is based are materially different from the facts at the time of the spin-off, the IRS could modify or revoke the IRS Ruling retroactively.

An opinion of counsel is not binding on the IRS. Accordingly, the IRS may reach conclusions with respect to the spin-off that are different from the conclusions reached in the opinion. Like the IRS Ruling, the opinion will be based on certain factual statements and representations, which, if incomplete or untrue in any material respect, could alter counsel’s conclusions.

Neither we nor Northrop Grumman are aware of any facts or circumstances that would cause any such factual statements or representations in the IRS Ruling or the legal opinion to be incomplete or untrue or cause the facts on which the IRS Ruling is based, or the legal opinion will be based, to be materially different from the facts at the time of the spin-off.

If all or a portion of the spin-off does not qualify as a tax-free transaction because any of the factual statements or representations in the IRS Ruling or the opinion are incomplete or untrue, or because the facts upon which the IRS Ruling is based are materially different from the facts at the time of the spin-off, Northrop Grumman would recognize a substantial gain for U.S. Federal income tax purposes. In such case, under IRS regulations each member of Northrop Grumman consolidated group at the time of the spin-off (including us and our subsidiaries), would be severally liable for the resulting U.S. Federal income tax liability.

Even if the spin-off otherwise qualifies as a tax-free transaction for U.S. Federal income tax purposes, the distribution will be taxable to Northrop Grumman (but not to Northrop Grumman stockholders) pursuant to Section 355(e) of the Internal Revenue Code if there are one or more acquisitions (including issuances) of the stock of either us or Northrop Grumman, representing 50% or more, measured by vote or value, of the then-outstanding stock of either corporation and the acquisition or acquisitions are deemed to be part of a plan or series of related transactions that include the distribution. Any acquisition of our common stock within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless we can rebut that presumption. The tax liability resulting from the application of Section 355(e) would be substantial. In addition, under IRS regulations, each member of the Northrop Grumman consolidated group at the time of the spin-off (including us and our subsidiaries) would be severally liable for the resulting U.S. Federal income tax liability.

We will agree not to enter into any transaction that could reasonably be expected to cause any portion of the spin-off (including the internal reorganization) to be taxable to Northrop Grumman, including under Section 355(e). We will also agree to indemnify Northrop Grumman for any tax liabilities resulting from any such transactions. The amount of any such indemnification could be substantial. These obligations may discourage, delay or prevent a change of control of our company. For additional detail, see “Anti-takeover provisions in our organizational documents and Delaware law, as well as regulatory requirements, could delay or prevent a change in control” and “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Tax Matters Agreement.”

We may be unable to make, on a timely basis, the changes necessary to operate as an independent, publicly owned company.

We have historically relied on Northrop Grumman for various financial, legal, administrative and other corporate services to support our operations. After the distribution, Northrop Grumman will continue to supply us certain of these services on a short-term transitional basis. However, we will be required to establish the necessary infrastructure and systems to supply these services on an ongoing basis. We may not be able to replace these services provided by Northrop Grumman in a timely manner or on terms and conditions as favorable as those we receive from Northrop Grumman.

In addition, as a public entity, we will be subject to the reporting requirements of the Exchange Act and requirements of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”). These requirements may place a strain on our systems and resources. The Exchange Act requires that we file annual, quarterly and current reports

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with respect to our business and financial condition. Under the Sarbanes-Oxley Act, we will be required to maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures, significant resources and management oversight will be required. We will be implementing additional procedures and processes for the purpose of addressing the standards and requirements applicable to public companies. These activities may divert management's attention from other business concerns, which could have a material adverse effect on our financial position, results of operations or cash flows.

We do not have a recent operating history as an independent company and our historical financial information may not be a reliable indicator of our future results.

The historical financial information we have included in this information statement has been derived from Northrop Grumman’s consolidated financial statements and does not necessarily reflect what our financial position, results of operations and cash flows would have been had we been a separate, stand-alone entity during the periods presented. Northrop Grumman did not account for us, and we were not operated, as a single stand-alone entity for the periods presented. In addition, the historical information is not necessarily indicative of what our results of operations, financial position and cash flows will be in the future. For example, following the spin-off, changes will occur in our cost structure, funding and operations, including changes in our tax structure, increased costs associated with reduced economies of scale and increased costs associated with becoming a public, stand-alone company. While we have been profitable as part of Northrop Grumman, we cannot assure you that as a stand-alone company our profits will continue at a similar level.

Our customers and prospective customers will consider whether our responsibility on a stand-alone basis satisfies their requirements for engaging in business with us.

Under federal acquisition regulations, the government commonly makes affirmative responsibility determinations before entering into new contracts with a contractor. In so doing, the government considers various factors, including financial resources, performance record, technical skills and facilities. Our customers and prospective customers will consider whether our responsibility on a stand-alone basis satisfies their requirements for entering into new contracts with us. The U.S. Navy has completed its determination of contractor responsibility with respect to certain shipbuilding contracts that are currently in negotiation and has found us to be a responsible contractor for those contracts. We believe we are and will continue to be a responsible contractor. Nonetheless, if, in the future, our customers or prospective customers are not satisfied with our responsibility, including our financial resources, it could likely affect our ability to bid for, obtain or retain contracts, which, if unresolved, could have a material adverse effect on our financial position, results of operations or cash flows.

More generally, our customers will need to develop and retain confidence in us as a partner on a stand-alone basis. We believe that will occur. In the process, however, our customers may continue to request additional information, as well as undertake further audits or take other steps that could lead to certain delays and costs.

The spin-off may expose us to potential liabilities arising out of state and federal fraudulent conveyance laws and legal dividend requirements.

The spin-off is subject to review under various state and federal fraudulent conveyance laws. Under these laws, if a court in a lawsuit by an unpaid creditor or an entity vested with the power of such creditor (including without limitation a trustee or debtor-in-possession in a bankruptcy by us or Northrop Grumman or any of our respective subsidiaries) were to determine that Northrop Grumman or any of its subsidiaries did not receive fair consideration or reasonably equivalent value for distributing our common stock or taking other action as part of the spin-off, or that we or any of our subsidiaries did not receive fair consideration or reasonably equivalent value for incurring indebtedness, including the new debt incurred by us in connection with the spin-off, transferring assets or taking other action as part of the spin-off and, at the time of such action, we, Northrop Grumman or any of our respective subsidiaries (i) was insolvent or would be rendered insolvent, (ii) had reasonably small capital with which to carry on its business and all business in which it intended to engage or (iii) intended to incur, or believed it would incur, debts beyond its ability to repay such debts as they would mature, then such court could void the spin-off as a
constructive fraudulent transfer. If such court made this determination, the court could impose a number of different remedies, including without limitation, voiding our liens and claims against Northrop Grumman, or providing Northrop Grumman with a claim for money damages against us in an amount equal to the difference between the consideration received by Northrop Grumman and the fair market value of our company at the time of the spin-off.

The measure of insolvency for purposes of the fraudulent conveyance laws will vary depending on which jurisdiction’s law is applied. Generally, however, an entity would be considered insolvent if the present fair saleable value of its assets is less than (i) the amount of its liabilities (including contingent liabilities) or (ii) the amount that will be required to pay its probable liabilities on its existing debts as they become absolute and mature. No assurance can be given as to what standard a court would apply to determine insolvency or that a court would determine that we, Northrop Grumman or any of our respective subsidiaries were insolvent at the time of or after giving effect to the spin-off, including the distribution of our common stock.

The distribution by us to Northrop Grumman of our interests in NGSC in connection with the internal reorganization and the payment of future dividends, if any, to the holders of our common stock are also subject to review under state corporate distribution statutes. Under the General Corporation Law of the State of Delaware (the “DGCL”), a corporation may only pay dividends to its stockholders either (i) out of its surplus (net assets minus capital) or (ii) if there is no such surplus, out of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Although we intend to make the distribution to Northrop Grumman and pay future dividends, if any, to the holders of our common stock entirely from surplus, no assurance can be given that a court will not later determine that some or all of the distribution to Northrop Grumman or any such future dividends to the holders of our common stock were unlawful.

In connection with the internal reorganization transactions, the Northrop Grumman board of directors expects to obtain opinions regarding the solvency of New NGC, Current NGC and us, as applicable. In addition, prior to the spin-off, the Northrop Grumman board of directors expects to obtain an opinion regarding our solvency and the solvency of Northrop Grumman and the permissibility of the spin-off and the distribution by us to Northrop Grumman under Section 170 of the DGCL. The Northrop Grumman board of directors and management believe that, in accordance with this opinion that is expected to be rendered in connection with the spin-off and the distribution by us of our interests in NGSC to Northrop Grumman, (i) Northrop Grumman and we each will be solvent at the time of the spin-off (including after the payment of such dividend and the spin-off), will be able to repay its debts as they mature following the spin-off and will have sufficient capital to carry on its businesses and (ii) the spin-off and such distribution will be made entirely out of surplus in accordance with Section 170 of the DGCL. There is no certainty, however, that a court would find this solvency opinion to be binding on the creditors of either us or Northrop Grumman, or that a court would reach the same conclusions set forth in such opinion in determining whether Northrop Grumman or we were insolvent at the time of, or after giving effect to, the spin-off, or whether lawful funds were available for the separation and the distribution to Northrop Grumman.

Under the Separation and Distribution Agreement, from and after the spin-off, each of Northrop Grumman and we will be responsible for the debts, liabilities and other obligations related to the business or businesses which it owns and operates following the consummation of the spin-off. Although we do not expect to be liable for any such obligations not expressly assumed by us pursuant to the Separation and Distribution Agreement, it is possible that a court would disregard the allocation agreed to between the parties, and require that we assume responsibility for obligations allocated to Northrop Grumman (for example, tax and/or environmental liabilities), particularly if Northrop Grumman were to refuse or were unable to pay or perform the subject allocated obligations. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Separation and Distribution Agreement.”

We may have been able to receive better terms from unaffiliated third parties than the terms we receive in our agreements with Northrop Grumman.

We expect that the agreements related to the spin-off, including the Separation and Distribution Agreement, Employee Matters Agreement, Insurance Matters Agreement, Intellectual Property License Agreement, Tax Matters Agreement, Transition Services Agreement and any other agreements, will be negotiated in the context of our separation from Northrop Grumman while we are still part of Northrop Grumman. Accordingly, these
agreements may not reflect terms that would have resulted from arm’s-length negotiations among unaffiliated third parties. The terms of the agreements being negotiated in the context of our separation are related to, among other things, allocations of assets, liabilities, rights, indemnifications and other obligations among Northrop Grumman and us. We may have received better terms from third parties because third parties may have competed with each other to win our business. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off” for more detail.

**Risks Relating to Our Common Stock**

You face the following risks in connection with ownership of our common stock:

There is no existing market for our common stock and we cannot be certain that an active trading market will develop or be sustained after the spin-off, and following the spin-off, our stock price may fluctuate significantly.

There currently is no public market for our common stock. We intend to apply to list our common stock on the NYSE. See “Trading Market.” It is anticipated that before the distribution date for the spin-off, trading of shares of our common stock will begin on a “when-issued” basis and such trading will continue up to and including the distribution date. However, there can be no assurance that an active trading market for our common stock will develop as a result of the spin-off or be sustained in the future. The lack of an active market may make it more difficult for you to sell our common stock and could lead to the price of our common stock being depressed or more volatile. We cannot predict the prices at which our common stock may trade after the spin-off. The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- our business profile and market capitalization may not fit the investment objectives of some Northrop Grumman stockholders and, as a result, these Northrop Grumman stockholders may sell our shares after the distribution;
- actual or anticipated fluctuations in our operating results due to factors related to our business;
- success or failure of our business strategy;
- our quarterly or annual earnings, or those of other companies in our industry;
- our ability to obtain financing as needed;
- announcement by us or our competitors of significant new business awards;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to cover our common stock after the spin-off;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and stock price performance of other comparable companies;
- investor perception of our company and the shipbuilding industry;
- natural or environmental disasters that investors believe may affect us;
- overall market fluctuations;
- fluctuations in the budget of the DoD;
- results from any material litigation or Government investigation;
- further reduction or rationalization by us or our competitors of the shipbuilding industrial base as a result of adverse changes to the DoD budget;
changes in laws and regulations affecting our business; and
general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

**Substantial sales of our common stock may occur in connection with the spin-off, which could cause the price of our common stock to decline.**

The shares of our common stock that Northrop Grumman distributes to its stockholders generally may be sold immediately in the public market. It is possible that some Northrop Grumman stockholders, which could include some of our larger stockholders, will sell our common stock received in the distribution if, for reasons such as our business profile or market capitalization as an independent company, we do not fit their investment objectives, or—in the case of index funds—we are not a participant in the index in which they are investing. The sales of significant amounts of our common stock or the perception in the market that this will occur may reduce the market price of our common stock.

**We cannot assure you that we will pay dividends on our common stock, and our indebtedness could limit our ability to pay dividends on our common stock.**

We do not currently intend to pay a dividend. Going forward, our dividend policy will be established by our board of directors based on our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that our board of directors considers relevant. In addition, the terms of the agreements governing our new debt or debt that we may incur in the future may limit or prohibit the payments of dividends. For more information, see “Dividend Policy.” There can be no assurance that we will pay a dividend in the future or continue to pay any dividend if we do commence the payment of dividends. There can also be no assurance that the combined annual dividends on Northrop Grumman common stock and our common stock after the spin-off, if any, will be equal to the annual dividends on Northrop Grumman common stock prior to the spin-off.

Additionally, indebtedness that we expect to incur in connection with the internal reorganization could have important consequences for holders of our common stock. If we cannot generate sufficient cash flow from operations to meet our debt-payment obligations, then our ability to pay dividends, if so determined by the board of directors, will be impaired and we may be required to attempt to restructure or refinance our debt, raise additional capital or take other actions such as selling assets, reducing or delaying capital expenditures or reducing our dividend. There can be no assurance, however, that any such actions could be effected on satisfactory terms, if at all, or would be permitted by the terms of our new debt or our other credit and contractual arrangements. In addition, the terms of the agreements governing new debt that we expect to incur prior to the spin-off or that we may incur in the future may limit or prohibit the payment of dividends.

**Anti-takeover provisions in our organizational documents and Delaware law, as well as regulatory requirements, could delay or prevent a change in control.**

Prior to completion of the spin-off, we will adopt the Restated Certificate of Incorporation and the Restated Bylaws. Certain provisions of the Restated Certificate of Incorporation and the Restated Bylaws may delay or prevent a merger or acquisition that a stockholder may consider favorable. For example, the Restated Certificate of Incorporation and the Restated Bylaws provide for a classified board, require advance notice for stockholder proposals and nominations, place limitations on convening stockholder meetings and authorize our board of directors to issue one or more series of preferred stock. These provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Delaware law also imposes some restrictions on mergers and other business combinations between any holder of 15% or more of our outstanding common stock and us. See “Description of Capital Stock.”
Under tax sharing arrangements, we will agree not to enter into any transaction involving an acquisition (including issuance) of HII common stock or any other transaction (or, to the extent we have the right to prohibit it, to permit any such transaction) that could reasonably be expected to cause the distribution or any of the internal reorganization transactions to be taxable to Northrop Grumman. We will also agree to indemnify Northrop Grumman for any tax liabilities resulting from any such transactions. The amount of any such indemnification could be substantial. Generally, Northrop Grumman will recognize taxable gain on the distribution if there are one or more acquisitions (including issuances) of our capital stock, directly or indirectly, representing 50% or more, measured by vote or value, of our then-outstanding capital stock, and the acquisitions or issuances are deemed to be part of a plan or series of related transactions that include the distribution. We will agree that, for two years after the spin-off, we will not enter into any transactions that reasonably could be expected to result in a 40%-or-more change in ownership of our stock, in the aggregate. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Tax Matters Agreement.” Any such shares of our common stock acquired, directly or indirectly, within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) will generally be presumed to be part of such a plan unless we can rebut that presumption.

Under the Separation and Distribution Agreement, in the event that, prior to the fifth anniversary of the distribution, if we experience a change of control and our corporate rating isdowngraded to B or B2 or below, as applicable, during the period beginning upon the announcement of such change of control and ending 60 days after the announcement of the consummation of such change of control, we will be required to provide credit support for our indemnity obligations under the Separation and Distribution Agreement in the form of one or more standby letters of credit in an amount equal to $250 million. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Separation and Distribution Agreement.”

Our activities, especially our nuclear shipbuilding operations, are considered vitally important to the U.S. Navy. As such, in the event of a potential change in control, we believe the U.S. Navy would want to be comfortable with the buyer and ensure that the buyer would continue to conduct our operations in a satisfactory manner. More specifically, in the event of a change in control, we believe the U.S. Navy and other regulatory agencies would want to assure themselves that our nuclear operations would continue to be conducted in a manner consistent with regulatory and contract requirements and that they should continue to provide the authorizations and indemnification necessary to conduct our nuclear operations. Depending on the circumstances, they could withdraw authorizations or decline to extend indemnification to new contracts, which could have a material adverse effect on our financial position, results of operations or cash flows. We have recently begun discussions with the U.S. Navy regarding whether to incorporate into our contracts more explicit terms regarding the requirements for U.S. Navy approval before transferring authorizations in the event of changes in control; we understand these discussions are part of a U.S. Navy initiative across our shipbuilding industry. See “—Our nuclear operations subject us to various environmental, regulatory, financial and other risks.”

Additionally, we intend to enter into the Guaranty Performance Agreement, pursuant to which, among other things, we will agree to cause NGSC’s guarantee obligations under the $83.7 million Revenue Bonds, which were issued for our benefit, to terminate or to cause credit support to be provided in the event we experience a change of control. For any period of time between a change of control and the termination of NGSC’s guarantee obligations, we will be required to cause credit support to be provided for NGSC’s guarantee obligations in the form of one or more letters of credit in an amount reasonably satisfactory to NGSC to support the payment of all principal, interest and any premiums under the Revenue Bonds. For a description of the Guaranty Performance Agreement, see “Certain Relationships and Related Party Transactions—Other Agreements.”

As a result, our obligations may discourage, delay or prevent a change of control of our company.
We have made forward-looking statements in this information statement, including in the sections entitled “Summary,” “Risk Factors,” “Questions and Answers About the Spin-Off,” “The Spin-Off,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business,” that are based on our management’s beliefs and assumptions and on information currently available to our management. Forward-looking statements include the information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, potential growth opportunities, potential operating performance improvements, benefits resulting from our separation from Northrop Grumman, the effects of competition and the effects of future legislation or regulations. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words “believe,” “expect,” “plan,” “intend,” “anticipate,” “estimate,” “predict,” “potential,” “continue,” “may,” “might,” “should,” “could” or the negative of these terms or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. You should not put undue reliance on any forward-looking statements in this information statement. We do not have any intention or obligation to update forward-looking statements after we distribute this information statement.

The risk factors discussed in “Risk Factors” could cause our results to differ materially from those expressed in forward-looking statements. 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 financial position, results of operations or cash flows. Any such risks could cause our results to differ materially from those expressed in forward-looking statements.
THE SPIN-OFF

Background

On March 14, 2011, Northrop Grumman approved the spin-off of HII from Northrop Grumman, following which we will be an independent, publicly owned company. As part of the spin-off, Current NGC will complete an internal reorganization, which we refer to as the “internal reorganization,” which will result in:

- New NGC, a subsidiary of Current NGC, replacing Current NGC as the publicly owned holding company that directly and indirectly owns all of the capital stock of Current NGC and its subsidiaries, including our common stock;
- New NGC changing its name to “Northrop Grumman Corporation;”
- Our becoming the parent company of those Northrop Grumman subsidiaries that currently operate the shipbuilding business; and
- Current NGC becoming a direct, wholly owned non-operating subsidiary of HII and being renamed “Titan II Inc.”

To complete the spin-off, Northrop Grumman will, following the internal reorganization, distribute to its stockholders all of the shares of our common stock. The distribution will occur on the distribution date, which is March 31, 2011. Each holder of Northrop Grumman common stock will receive one share of our common stock for every six shares of Northrop Grumman common stock held on March 30, 2011, the record date. After completion of the spin-off:

- we will be an independent, publicly owned company, will own and operate the shipbuilding business and will own all of the stock of Current NGC; and
- New NGC, primarily through its subsidiary NGSC, will own and operate the aerospace systems, electronic systems, information systems and technical services businesses previously owned by and operated by Current NGC.

Each holder of Northrop Grumman common stock will continue to hold his, her or its shares in Northrop Grumman. No vote of Northrop Grumman’s stockholders is required or is being sought in connection with the spin-off, and Northrop Grumman’s stockholders will not have any appraisal rights in connection with the spin-off, including the internal reorganization.

The distribution of our common stock as described in this information statement is subject to the satisfaction or waiver of certain conditions. In addition, Northrop Grumman has the right not to complete the spin-off if, at any time prior to the distribution, the board of directors of Northrop Grumman determines, in its sole discretion, that the spin-off is not in the best interests of Northrop Grumman or its stockholders, that a sale or other alternative is in the best interests of Northrop Grumman or its stockholders or that it is not advisable for us to separate from Northrop Grumman. For a more detailed description, see “—Conditions to the Spin-Off.”

Reasons for the Spin-Off

Northrop Grumman’s board of directors has determined that the spin-off is in the best interests of Northrop Grumman and its stockholders because the spin-off will provide various benefits including: (i) greater strategic focus of investment resources and each management’s efforts, (ii) tailored customer focus, (iii) direct and differentiated access to capital markets and (iv) enhanced investor choices by offering investment opportunities in separate entities.

Greater Strategic Focus of Financial Resources and Each Management’s Efforts. Northrop Grumman’s shipbuilding business represents a discrete portion of Northrop Grumman’s overall businesses. It has historically exhibited different financial and operating characteristics than Northrop Grumman’s other businesses. Northrop Grumman has a portfolio of C4ISR systems and electronics, manned and unmanned air and space platforms, cyber-security and related system-level applications and logistics that it has strategically positioned to align with what Northrop Grumman believes are its customers’ emerging security priorities. Northrop Grumman management
believes it has capabilities and synergies in these areas of its portfolio across its aerospace, electronics, information systems and technical services sectors. Going forward, however, Northrop Grumman management sees little synergy between its shipbuilding business and its other businesses. Additionally, the shipbuilding business is a mature business that is more capital-intensive than most of Northrop Grumman’s other businesses, with longer periods of performance. Northrop Grumman’s management believes that its shipbuilding business, on one hand, and its other businesses, on the other hand, require inherently different strategies in order to maximize their long-term value. Because the shipbuilding business requires capital intensiveness to support its key customers, Northrop Grumman has been required, in recent years, to make continuing capital expenditures in the shipbuilding business. Northrop Grumman’s and our management believe that Northrop Grumman’s management resources would be more efficiently utilized if Northrop Grumman’s management concentrated solely on Northrop Grumman’s other businesses, and that our management resources would be more efficiently utilized if our management concentrated solely on the shipbuilding business. Consequently, Northrop Grumman has determined that its current structure may not be the most effective to design and implement the distinct strategies necessary to operate in a manner that maximizes the long-term value of each company.

Both Northrop Grumman and we expect to have better use of management and financial resources as a result of having board and management teams solely focused on their respective businesses. The spin-off will allow us to better align management’s attention and resources to pursue opportunities in the shipbuilding market and to more actively manage our cost structure. Northrop Grumman will similarly benefit from its management’s ability to focus on the management and operation of its other businesses.

**Tailored Customer Focus.** Both Northrop Grumman and we believe that, as a unified, commonly managed, stand-alone shipbuilding business, our management will be able to focus solely on the needs of our own customers (primarily the U.S. Navy), without dilution arising from a connection to a larger parent with tangential goals and incentives.

**Direct and Differentiated Access to Capital Markets.** After the spin-off, we will no longer need to compete with Northrop Grumman’s other businesses for capital resources. As a long-cycle, mature industrial business with heavy capital needs but with long-duration and highly transparent cash flows, the shipbuilding business has different financial and operating characteristics from Northrop Grumman’s other businesses. Both Northrop Grumman and we believe that direct and differentiated access to the capital markets will allow each of us to better optimize the amounts and terms of the capital needed for each of the respective businesses, aligning financial and operational characteristics with investor and market expectations. Northrop Grumman’s management also believes that, as a separate entity, we will have ready access to capital, because we will attract investors who are interested in the characteristics of the shipbuilding business. Although we will no longer have financial support from Northrop Grumman, our financial resources have been established in a manner that considers the capital-intensiveness of our business and specifically factors in the projected requirement for future capital expenditures.

**Enhanced Investor Choices by Offering Investment Opportunities in Separate Entities.** After the spin-off, investors should be better able to evaluate the financial performances of Northrop Grumman and us, as well as our respective strategies within the context of our respective markets, thereby enhancing the likelihood that both entities will achieve appropriate market valuations. Northrop Grumman’s management and financial advisors believe that the investment characteristics of the shipbuilding business and Northrop Grumman’s other businesses may appeal to different types of investors. As a result of the spin-off, management of both companies should be able to implement goals and evaluate strategic opportunities in light of investor expectations within their respective specialties without undue attention to investor expectations in other specialties. In addition, each company should be able to focus its public relations efforts on cultivating its own separate identity.

**Manner of Effecting the Spin-Off**

The general terms and conditions relating to the spin-off will be set forth in a Separation and Distribution Agreement among us, Northrop Grumman, NGSC and NGSB.
Prior to the distribution, as described under “Distribution of Shares of Our Common Stock,” and as part of the internal reorganization, Current NGC will complete a corporate reorganization, which we refer to as the “holding company reorganization,” to create a holding company structure. The holding company reorganization will be effected by action of the board of directors of Current NGC without a vote of Northrop Grumman’s stockholders pursuant to Section 251(g) of the DGCL. In accordance with Section 251(g) of the DGCL, Titan Merger Sub Inc., a Delaware corporation and indirect, wholly owned subsidiary of New NGC, will merge with and into Current NGC, with Current NGC as the surviving corporation and an indirect, wholly owned subsidiary of New NGC, the new holding company. At the effective time of that merger and in connection with the holding company reorganization, Current NGC will change its name from “Northrop Grumman Corporation” to “Titan II Inc.,” and New NGC will change its name to “Northrop Grumman Corporation.” In the holding company reorganization, all of the outstanding shares of capital stock of Current NGC will become the same number of shares of the same class of capital stock of New NGC. Outstanding options to acquire common stock of Current NGC will become options to acquire common stock of New NGC. The board of directors of New NGC immediately after completion of the holding company reorganization will be composed of the same persons who are on the board of directors of Current NGC immediately prior to the holding company reorganization.

As part of the internal reorganization, through a series of internal transfers including the Contribution and the transfer to New NGC of all of the non-shipbuilding-related assets and liabilities of Current NGC, we will be the parent company of the Northrop Grumman subsidiaries that currently operate the shipbuilding business and Current NGC will be our direct, wholly owned subsidiary. After completion of the internal reorganization, Current NGC will have no material assets or liabilities other than Current NGC’s guarantees of our performance under certain of our contracts and certain of our indebtedness and insurance agreements related to NGSB (the “Current NGC Obligations”). See “Description of Material Indebtedness.” These guarantees, which will remain with Current NGC and will not be transferred in the internal reorganization or the Spin-Off, require Current NGC to guarantee the performance of our subsidiary, NGSB, under certain of its shipbuilding contracts and to guarantee the payment of amounts owed by us in connection with the GO Zone IRBs and the related loan agreement with the MBFC. We will enter into performance and indemnity agreements with Current NGC, pursuant to which we will agree to perform all of the Current NGC Obligations and indemnify Current NGC for any costs arising from such obligations. These indemnities do not relate to our relationship with Northrop Grumman. The diagrams below show the transaction structure, simplified for illustrative purposes only:

**Distribution of Shares of Our Common Stock**

Under the Separation and Distribution Agreement, the distribution will be effective as of 12:01 a.m., Eastern time, on March 31, 2011, the distribution date. As a result of the spin-off, on the distribution date, each holder of Northrop Grumman common stock will receive one share of our common stock for every six shares of Northrop
Grumman common stock that he, she or it owns. In order to receive shares of our common stock in the spin-off, a Northrop Grumman stockholder must be stockholder at the close of business of the NYSE on March 30, 2011, the record date.

The diagram below shows the structure, simplified for illustrative purposes only, of Northrop Grumman and HII after completion of the spin-off:

On the distribution date, Northrop Grumman will release the shares of our common stock to our distribution agent to distribute to Northrop Grumman stockholders. For most of these Northrop Grumman stockholders, our distribution agent will credit their shares of our common stock to book-entry accounts established to hold their shares of our common stock. Our distribution agent will send these stockholders, including any Northrop Grumman stockholder that holds physical share certificates of Northrop Grumman common stock and is the registered holder of such shares of Northrop Grumman common stock represented by those certificates on the record date, a statement reflecting their ownership of our common stock. Book-entry refers to a method of recording stock ownership in our records in which no physical certificates are used. For stockholders who own Northrop Grumman common stock through a broker or other nominee, their shares of our common stock will be credited to these stockholders’ accounts by the broker or other nominee. It is expected that it will take the distribution agent up to two weeks to electronically issue shares of our common stock to Northrop Grumman stockholders or their bank or brokerage firm by way of direct registration in book-entry form. Trading of our stock will not be affected by this delay in issuance by the distribution agent. As further discussed below, we will not issue fractional shares of our common stock in the distribution. Following the spin-off, stockholders whose shares are held in book-entry form may request that their shares of our common stock be transferred to a brokerage or other account at any time.

Northrop Grumman stockholders will not be required to make any payment or surrender or exchange their shares of Northrop Grumman common stock or take any other action to receive their shares of our common stock. No vote of Northrop Grumman stockholders is required or sought in connection with the spin-off, including the internal reorganization, and Northrop Grumman stockholders have no appraisal rights in connection with the spin-off.

**Treatment of Fractional Shares**

The distribution agent will not distribute any fractional shares of our common stock to Northrop Grumman stockholders. Instead, as soon as practicable on or after the distribution date, the distribution agent will aggregate fractional shares of our common stock held by holders of record into whole shares, sell them in the open market at the prevailing market prices and then distribute the aggregate sale proceeds ratably to Northrop Grumman stockholders who would otherwise have been entitled to receive fractional shares of our common stock. The amount of this payment will depend on the prices at which the distribution agent sells the aggregated fractional shares of our common stock in the open market shortly after the distribution date. We will be responsible for any payment of brokerage fees. The amount of these brokerage fees is not expected to be material to us. The receipt of cash in lieu of fractional shares of our common stock will generally result in a taxable gain or loss to the recipient stockholder. Each stockholder entitled to receive cash proceeds from these shares should consult his, her or its own tax advisor as to the stockholder’s particular circumstances. The tax consequences of the distribution are described in more detail under “—U.S. Federal Income Tax Consequences of the Spin-Off.”
In addition, at the time of the distribution, the exercise price of each outstanding option to purchase Northrop Grumman stock held by our employees on the distribution date will be reduced to reflect the value of the distribution, which will be calculated using the equitable adjustment approach contained in the existing awards.

**U.S. Federal Income Tax Consequences of the Spin-Off**

Northrop Grumman has received the IRS Ruling and will receive an opinion from the law firm of Ivins, Phillips & Barker substantially to the effect that, among other things, (i) the holding company reorganization, together with certain other internal reorganization transactions, will qualify for tax-free treatment, and (ii) the distribution will qualify under Section 355 of the Code as a tax-free spin-off to the holders of Northrop Grumman common stock (except with respect to cash received in lieu of fractional shares of our common stock) and will be tax-free to Northrop Grumman and HII. Assuming the holding company reorganization, together with certain other internal reorganization transactions, qualifies for tax-free treatment, and the distribution qualifies under Section 355 of the Code as tax-free:

In the holding company reorganization:

- no gain or loss will be recognized by the holders of Northrop Grumman common stock upon their receipt of New NGC common stock in exchange for their Current NGC common stock in the holding company reorganization;
- the basis of New NGC common stock received in exchange for Current NGC common stock in the holding company reorganization will be equal to the basis of the Current NGC common stock surrendered in exchange therefor; and
- the holding period of New NGC common stock received in exchange for Current NGC stock in the holding company reorganization will include the period during which the stockholder held the Current NGC common stock, provided the Current NGC common stock is held as a capital asset on the date of the merger in the holding company reorganization.

In the internal reorganization, neither we nor Northrop Grumman will recognize any taxable income, gain or loss.

In the distribution:

- no gain or loss will be recognized by, and no amount will be included in the income of, holders of Northrop Grumman common stock upon their receipt of shares of our common stock in the distribution;
- the basis of Northrop Grumman common stock immediately before the distribution will be allocated between the Northrop Grumman common stock and our common stock received in the distribution, in proportion with relative fair market values at the time of the distribution;
- the holding period of our common stock received by each Northrop Grumman stockholder will include the period during which the stockholder held the Northrop Grumman common stock on which the distribution is made, provided that the Northrop Grumman common stock is held as a capital asset on the distribution date;
- any cash received in lieu of fractional share interest in our common stock will give rise to taxable gain or loss equal to the difference between the amount of cash received and the tax basis allocable to the fractional share interests, determined as described above, and such gain will be capital gain or loss if the Northrop Grumman common stock on which the distribution is made is held as a capital asset on the distribution date; and
- no gain or loss will be recognized by Northrop Grumman upon the distribution of our common stock.

U.S. Treasury regulations require certain stockholders that receive stock in a spin-off to attach to their respective U.S. Federal income tax returns, for the year in which the spin-off occurs, a detailed statement setting forth certain information relating to the spin-off. Shortly after the distribution, Northrop Grumman will provide stockholders who receive our common stock in the distribution with the information necessary to comply with that.
requirement, as well as information to help stockholders allocate their stock basis between their Northrop Grumman common stock and our common stock.

The IRS Ruling is, and the opinion of counsel will be, conditioned on the truthfulness and completeness of certain factual statements and representations provided by Northrop Grumman and us. If those factual statements and representations are incomplete or untrue in any material respect, the IRS Ruling and opinion of counsel could become inoperative. Northrop Grumman and we have reviewed the statements of fact and representations on which the IRS Ruling is, and the opinion of counsel will be, based, and neither Northrop Grumman nor we are aware of any facts or circumstances that would cause any of the statements of fact or representations to be incomplete or untrue. Both Northrop Grumman and we have agreed to some restrictions on our future actions to provide further assurance that the distribution will qualify as a tax-free distribution under Section 355 of the Code.

If the holding company reorganization does not qualify as a tax-free reorganization, taxable gain or loss would be recognized by each holder of Northrop Grumman stock. The amount of such gain or loss would be equal to the difference between the fair market value of such holder’s New NGC stock (including our stock received in the distribution) and such holder’s adjusted basis in his, her or its Current NGC stock. In addition, if the holding company reorganization does not qualify as a tax-free organization, taxable gain would be recognized by Northrop Grumman. The amount of such gain would result in a significant U.S. Federal income tax liability to Northrop Grumman.

If the distribution does not qualify under Section 355 of the Code, each holder of Northrop Grumman common stock receiving our common stock in the distribution would be treated as receiving a taxable distribution in an amount equal to the fair market value of our common stock received, which would result in:

- a taxable dividend to the extent of the stockholder’s pro rata share of Northrop Grumman’s current and accumulated earnings and profits;
- a reduction in the stockholder’s basis in Northrop Grumman common stock to the extent the amount received exceeds such stockholder’s share of earnings and profits;
- taxable gain from the exchange of Northrop Grumman common stock to the extent the amount received exceeds both the stockholder’s share of earnings and profits and the stockholder’s basis in Northrop Grumman common stock; and
- basis in our stock equal to its fair market value on the date of the distribution.

Under certain circumstances Northrop Grumman would recognize taxable gain on the distribution. These circumstances would include the following:

- the distribution does not qualify as tax-free under Section 355 of the Code; and
- there are one or more acquisitions (including issuances) of either our stock or the stock of Northrop Grumman, representing 50% or more, measured by vote or value, of the then-outstanding stock of either corporation, and the acquisition or acquisitions are deemed to be part of a plan or series of related transactions that include the distribution. Any such acquisition of our stock within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless we can rebut that presumption.

The amount of such gain would result in a significant U.S. Federal income tax liability to Northrop Grumman.

Furthermore, under certain circumstances, we would recognize taxable gain on portions of the internal reorganization. These circumstances would include the following:

- certain portions of the holding company reorganization or the internal reorganization do not qualify as a tax-free reorganization; and
- there are one or more acquisitions (including issuances and repurchases) of either our stock or the stock of NGSC, a subsidiary of Northrop Grumman, representing 50% or more, measured by vote or value, of the then-outstanding stock of either corporation, and the acquisition or acquisitions are deemed to be part of a
plan or series of related transactions that include the internal reorganization. Any such acquisition of our stock within two years before or after the distribution (with exceptions, including public trading by less-than-5% stockholders and certain compensatory stock issuances) generally will be presumed to be part of such a plan unless we can rebut that presumption.

The amount of such gain would result in a significant U.S. Federal income tax liability to us, which may have a material adverse effect on our financial position, results of operations or cash flows.

We will agree to indemnify Northrop Grumman for any tax liabilities of Northrop Grumman resulting from the holding company reorganization, the internal reorganization, and the distribution under certain circumstances. Our obligation to indemnify Northrop Grumman may discourage, delay or prevent a change of control of our company. In addition, under IRS regulations, each member of the Northrop Grumman consolidated tax return group at the time of the spin-off (including us and our subsidiaries) would be severally liable to the IRS for such tax liability. The resulting tax liability may have a material adverse effect on both our and Northrop Grumman’s financial position, results of operations or cash flows.

The preceding summary of the anticipated U.S. Federal income tax consequences of the spin-off is for general information only. Northrop Grumman stockholders should consult their own tax advisors as to the specific tax consequences of the spin-off to them, including the application and effect of state, local or non-U.S. tax laws and of changes in applicable tax laws.

Results of the Spin-Off

After the spin-off, we will be an independent, publicly owned company. Immediately following the spin-off, we expect to have approximately 32,000 holders of shares of our common stock and approximately 48.8 million shares of our common stock outstanding, based on the number of stockholders and outstanding shares of Northrop Grumman common stock expected as of the record date. The figures assume no exercise of outstanding options and exclude shares of Northrop Grumman common stock held directly or indirectly by Northrop Grumman, if any. The actual number of shares to be distributed will be determined on the record date and will reflect any exercise of Northrop Grumman options between the date the Northrop Grumman board of directors declares the dividend for the distribution and the record date for the distribution.

For information regarding options to purchase shares of our common stock that will be outstanding after the distribution, see “Capitalization,” “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Employee Matters Agreement” and “Management.”

Before the spin-off, we will enter into several agreements with Northrop Grumman to effect the spin-off and provide a framework for our relationship with Northrop Grumman after the spin-off. These agreements will govern the relationship between us and Northrop Grumman after completion of the spin-off and provide for the allocation between us and Northrop Grumman of Northrop Grumman’s assets, liabilities and obligations. For a more detailed description of these agreements, see “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off.”

Trading Prior to the Distribution Date

It is anticipated that, at least two trading days prior to the record date and continuing up to and including the distribution date, there will be a “when-issued” market in our common stock. When-issued trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. The when-issued trading market will be a market for shares of our common stock that will be distributed to Northrop Grumman stockholders on the distribution date. Any Northrop Grumman stockholder that owns shares of Northrop Grumman common stock at the close of business on the record date will be entitled to shares of our common stock distributed in the spin-off. Northrop Grumman stockholders may trade this entitlement to shares of our common stock, without the shares of Northrop Grumman common stock they own, on the when-issued market. On the first trading day following the distribution date, we expect when-issued trading with respect to our common stock will end and “regular-way” trading will begin. See “Trading Market.”
Following the distribution date, we expect shares of our common stock to be listed on the NYSE under the ticker symbol “HII.” We will announce the when-issued ticker symbol when and if it becomes available.

It is also anticipated that, at least two trading days prior to the record date and continuing up to and including the distribution date, there will be two markets in Northrop Grumman common stock: a “regular-way” market and an “ex-distribution” market. Shares of Northrop Grumman common stock that trade on the regular-way market will trade with an entitlement to shares of our common stock distributed pursuant to the distribution. Shares that trade on the ex-distribution market will trade without an entitlement to shares of our common stock distributed pursuant to the distribution. Therefore, if shares of Northrop Grumman common stock are sold in the regular-way market up to and including the distribution date, the selling stockholder’s right to receive shares of our common stock in the distribution will be sold as well. However, if Northrop Grumman stockholders own shares of Northrop Grumman common stock at the close of business on the record date and sell those shares on the ex-distribution market up to and including the distribution date, the selling stockholders will still receive the shares of our common stock that they would otherwise receive pursuant to the distribution. See “Trading Market.”

**Treatment of 401(k) Shares for Current and Former Employees**

*Our Employees Invested in the Northrop Grumman Stock Fund of the Northrop Grumman 401(k) Plan.*

Our current and former employees who hold accounts in the Northrop Grumman 401(k) Plan on March 30, 2011 will have their accounts transferred to the HII 401(k) Plan, as of March 31, 2011, including any shares of Northrop Grumman common stock held in the Northrop Grumman Stock Fund under the Northrop Grumman 401(k) Plan. On the distribution date, one share of our common stock, based on the distribution ratio for every six shares of Northrop Grumman common stock held in such employee’s Northrop Grumman stock fund account, will be included in a new HII stock fund account under the HII 401(k) Plan. However, in conformity with the fiduciary responsibility requirements of ERISA, remaining shares of Northrop Grumman common stock held in our employees’ Northrop Grumman stock fund accounts following the distribution will be disposed of and allocated to another investment alternative available under the HII 401(k) Plan as directed by participants until such date as shall be determined by the Investment Committee, after which date the Investment Committee shall dispose of all remaining shares and invest the proceeds in another investment alternative to be determined by the Investment Committee (but this will not prohibit diversified, collectively managed investment alternatives available under the HII 401(k) Plan from holding Northrop Grumman common stock or prohibit employees who use self-directed accounts in the HII 401(k) Plan from investing their accounts in Northrop Grumman common stock).

*Northrop Grumman Employees Invested in the Northrop Grumman Stock Fund of the Northrop Grumman 401(k) Plan.*

Current and former Northrop Grumman employees who hold shares of Northrop Grumman common stock in their Northrop Grumman 401(k) Plan account as of the record date will receive shares of our common stock in the distribution. Our shares will be included in a new, temporary HII stock fund under the Northrop Grumman 401(k) Plan. In conformity with the fiduciary responsibility requirements of ERISA, remaining shares of our common stock held in the temporary HII stock fund following the distribution will be disposed of and allocated to another investment alternative available under the Northrop Grumman 401(k) Plan as directed by participants until such date as shall be determined by the Investment Committee, after which date the Investment Committee shall dispose of all remaining shares and invest the proceeds in another investment alternative to be determined by the Investment Committee (but this will not prohibit diversified, collectively managed investment alternatives available under the Northrop Grumman 401(k) Plan from holding our common stock or prohibit employees who use self-directed accounts in the Northrop Grumman 401(k) Plan from investing their accounts in our common stock).

**Incurrence of Debt**

It is anticipated that, prior to the spin-off, we will (i) receive the net proceeds from the HII Debt, (ii) enter into the HII Credit Facility and (iii) make the Contribution, all on terms acceptable to Northrop Grumman.
Conditions to the Spin-Off

We expect that the spin-off will be effective as of 12:01 a.m., Eastern time, on March 31, 2011, the distribution date, provided that the following conditions shall have been satisfied or waived by Northrop Grumman:

- the board of directors of Northrop Grumman, in its sole and absolute discretion, shall have authorized and approved the spin-off and not withdrawn such authorization and approval, and the New NGC board shall have declared the dividend of our common stock to Northrop Grumman stockholders;
- the Separation and Distribution Agreement and each ancillary agreement contemplated by the Separation and Distribution Agreement shall have been executed by each party thereto;
- the SEC shall have declared effective our registration statement on Form 10, of which this information statement is a part, under the Exchange Act, and no stop order suspending the effectiveness of the registration statement shall be in effect, and no proceedings for such shall be pending before or threatened by the SEC;
- our common stock shall have been accepted for listing on the NYSE or another national securities exchange approved by Northrop Grumman, subject to official notice of issuance;
- the internal reorganization (as described in “—Background”) shall have been completed;
- Northrop Grumman shall have received the IRS Ruling and an opinion of its tax counsel, each of which shall remain in full force and effect, that the spin-off (including the internal reorganization) will not result in the recognition, for U.S. Federal income tax purposes, of gain or loss to Northrop Grumman or its stockholders, except to the extent of cash received in lieu of fractional shares;
- HII shall have (i) entered into the HII Credit Facility, (ii) received the net proceeds from the HII Debt and (iii) made the Contribution;
- no order, injunction or decree that would prevent the consummation of the distribution shall be threatened, pending or issued (and still in effect) by any governmental authority of competent jurisdiction, other legal restraint or prohibition preventing consummation of the distribution shall be in effect and no other event outside the control of Northrop Grumman shall have occurred or failed to occur that prevents the consummation of the distribution;
- no other events or developments shall have occurred prior to the distribution that, in the judgment of the board of directors of Northrop Grumman, would result in the spin-off having a significant adverse effect on Northrop Grumman or its stockholders;
- prior to the distribution, this information statement shall have been mailed to the holders of Northrop Grumman common stock as of the record date;
- our current directors shall have duly elected the individuals listed as members of our post-distribution board of directors in this information statement, and such individuals shall become the members of our board of directors immediately prior to the distribution;
- prior to the distribution, Northrop Grumman shall have delivered to us resignations from those HII positions, effective as of immediately prior to the distribution, of each individual who will be an employee of Northrop Grumman after the distribution and who is an officer or director immediately prior to the distribution; and
- immediately prior to the distribution, the Restated Certificate of Incorporation and the Restated Bylaws, each in substantially the form filed as an exhibit to the registration statement on Form 10 of which this information statement is a part, shall be in effect.

The fulfillment of the foregoing conditions will not create any obligation on Northrop Grumman’s part to effect the spin-off. We are not aware of any material federal or state regulatory requirements that must be complied with or any material approvals that must be obtained, other than compliance with SEC rules and regulations and the declaration of effectiveness of the registration statement on Form 10 by the SEC, in connection with the distribution.
Northrop Grumman has the right not to complete the spin-off if, at any time prior to the distribution, the board of directors of Northrop Grumman determines, in its sole discretion, that the spin-off is not in the best interests of Northrop Grumman or its stockholders, that a sale or other alternative is in the best interests of Northrop Grumman or its stockholders or that it is not advisable for us to separate from Northrop Grumman.

Reason for Furnishing this Information Statement

This information statement is being furnished solely to provide information to Northrop Grumman’s stockholders that are entitled to receive shares of our common stock in the spin-off. This information statement is not, and is not to be construed as, an inducement or encouragement to buy, hold or sell any of our securities. We believe that the information in this information statement is accurate as of the date set forth on the cover. Changes may occur after that date and neither Northrop Grumman nor we undertake any obligation to update the information except in the normal course of our respective public disclosure obligations.
TRADING MARKET

Market for Our Common Stock

There has been no public market for our common stock. An active trading market may not develop or may not be sustained. We anticipate that trading of our common stock will commence on a “when-issued” basis at least two trading days prior to the record date and continue through the distribution date. When-issued trading refers to a sale or purchase made conditionally because the security has been authorized but not yet issued. When-issued trades generally settle within four trading days after the distribution date. If you own shares of Northrop Grumman common stock at the close of business on the record date, you will be entitled to shares of our common stock distributed pursuant to the spin-off. You may trade this entitlement to shares of our common stock, without the shares of Northrop Grumman common stock you own, on the when-issued market. On the first trading day following the distribution date, any when-issued trading with respect to our common stock will end and “regular-way” trading will begin. We intend to list our common stock on the NYSE under the ticker symbol “HII.” We will announce our when-issued trading symbol when and if it becomes available.

It is also anticipated that, at least two trading days prior to the record date and continuing up to and including the distribution date, there will be two markets in Northrop Grumman common stock: a “regular-way” market and an “ex-distribution” market. Shares of Northrop Grumman common stock that trade on the regular-way market will trade with an entitlement to shares of our common stock distributed pursuant to the distribution. Shares that trade on the ex-distribution market will trade without an entitlement to shares of our common stock distributed pursuant to the distribution. Therefore, if you own shares of Northrop Grumman common stock at the close of business on the record date and sell those shares on the ex-distribution market up to and including the distribution date, you will still receive the shares of our common stock that you would otherwise receive pursuant to the distribution.

We cannot predict the prices at which our common stock may trade before the spin-off on a “when-issued” basis or after the spin-off. Those prices will be determined by the marketplace. Prices at which trading in our common stock occurs may fluctuate significantly. Those prices may be influenced by many factors, including anticipated or actual fluctuations in our operating results or those of other companies in our industry, investor perception of our company and the shipbuilding industry, market fluctuations and general economic conditions. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the performance of many stocks and that have often been unrelated or disproportionate to the operating performance of these companies. These are just some factors that may adversely affect the market price of our common stock. See “Risk Factors-Risks Relating to Our Common Stock.”

Transferability of Shares of Our Common Stock

We expect that upon completion of the spin-off, we will have approximately 48.8 million shares of common stock issued and outstanding, based on the number of shares of Northrop Grumman common stock expected to be outstanding as of the record date. The shares of our common stock that you will receive in the distribution will be freely transferable, unless you are considered an “affiliate” of ours under Rule 144 under the Securities Act of 1933, as amended (the “Securities Act”). Persons who can be considered our affiliates after the spin-off generally include individuals or entities that directly, or indirectly through one or more intermediaries, control, are controlled by, or are under common control with, us, and may include certain of our officers and directors. As of the record date, we estimate that our directors and officers will beneficially own 98,510 shares of our common stock. In addition, individuals who are affiliates of Northrop Grumman on the distribution date may be deemed to be affiliates of ours. Our affiliates may sell shares of our common stock received in the distribution only:

• under a registration statement that the SEC has declared effective under the Securities Act; or
• under an exemption from registration under the Securities Act, such as the exemption afforded by Rule 144.
In general, under Rule 144 as currently in effect, an affiliate will be entitled to sell, within any three-month period commencing 90 days after the date the registration statement, of which this information statement is a part, is declared effective, a number of shares of our common stock that does not exceed the greater of:

- 1.0% of our common stock then outstanding; or
- the average weekly trading volume of our common stock on the NYSE during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also subject to restrictions relating to manner of sale and the availability of current public information about us.

In the future, we may adopt new stock option and other equity-based award plans and issue options to purchase shares of our common stock and other stock-based awards. We currently expect to file a registration statement under the Securities Act to register shares to be issued under these stock plans. Shares issued pursuant to awards after the effective date of the registration statement, other than shares issued to affiliates, generally will be freely tradable without further registration under the Securities Act.

Except for our common stock distributed in the distribution, none of our equity securities will be outstanding on or immediately after the spin-off and there are no registration rights agreements existing with respect to our common stock.
DIVIDEND POLICY

We do not currently intend to pay a dividend. Going forward, our dividend policy will be established by our board of directors based on our financial condition, results of operations and capital requirements, as well as applicable law, regulatory constraints, industry practice and other business considerations that our board of directors considers relevant. In addition, the terms of the agreements governing our new debt or debt that we may incur in the future may limit or prohibit the payments of dividends. There can be no assurance that we will pay a dividend in the future or continue to pay any dividend if we do commence the payment of dividends. There can also be no assurance that the combined annual dividends on Northrop Grumman common stock and our common stock after the spin-off, if any, will be equal to the annual dividends on Northrop Grumman common stock prior to the spin-off.
The following table presents NGSB’s historical capitalization at December 31, 2010 and our pro forma capitalization at that date reflecting the spin-off and the related transactions and events described in the notes to our unaudited pro forma condensed consolidated balance sheet as if the spin-off and the related transactions and events, including our financing transaction, had occurred on December 31, 2010. The capitalization table below should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and NGSB’s historical consolidated financial statements, our unaudited pro forma condensed consolidated financial statements and the notes to those financial statements included elsewhere in this information statement.

We are providing the capitalization table below for informational purposes only. It should not be construed to be indicative of our capitalization or financial condition had the spin-off and the related transactions and events been completed on the date assumed. The capitalization table below may not reflect the capitalization or financial condition that would have resulted had we been operated as a separate, independent entity at that date and is not necessarily indicative of our future capitalization or financial condition.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Historical</th>
<th>Adjustments [A]</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$</td>
<td>$ 300</td>
<td>$ 300</td>
</tr>
<tr>
<td>Debt, including current and long-term:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$ 105</td>
<td></td>
<td>$ 105</td>
</tr>
<tr>
<td>Revolving credit facility</td>
<td>[A]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Term loan</td>
<td>$</td>
<td>$ 575 [A]</td>
<td>$ 575</td>
</tr>
<tr>
<td>Senior notes</td>
<td></td>
<td>$ 1,200 [A]</td>
<td>$ 1,200</td>
</tr>
<tr>
<td>Notes payable to parent</td>
<td>715</td>
<td>(715) [B]</td>
<td></td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td>239</td>
<td>(239) [B]</td>
<td></td>
</tr>
<tr>
<td>Total debt</td>
<td>1,059</td>
<td>821</td>
<td>1,880</td>
</tr>
<tr>
<td>Equity:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>[B]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td></td>
<td>$ 1,508 [B]</td>
<td>$ 1,508</td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td>1,933</td>
<td>(1,933) [B]</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td></td>
<td>(515)</td>
<td>(515)</td>
</tr>
<tr>
<td>Total equity</td>
<td>1,418</td>
<td>(425)</td>
<td>993</td>
</tr>
<tr>
<td>Total capitalization</td>
<td>$ 2,477</td>
<td>$ 396</td>
<td>$ 2,873</td>
</tr>
</tbody>
</table>

[A] Historically, cash received by us has been transferred to Northrop Grumman, and Northrop Grumman has funded our disbursement accounts on an as-needed basis. The pro forma cash and cash equivalents balance reflects proceeds, net of fees, of $1,729 million from the incurrence of the HII Debt (consisting of $1,200 million in notes) and the HII Credit Facility (which includes a $575 million term loan and a revolving facility of $650 million, of which approximately $137 million of letters of credit are expected to be issued but undrawn at the time of the spin-off, and the remaining $513 million of which will be unutilized at that time), less a Contribution of $1,429 million to Northrop Grumman. This remaining balance will be available for our general corporate purposes. The $1,200 million in notes consist of a $600 million 6.875% senior note due in 2018 and a $600 million 7.125% senior note due in 2021. The $575 million term loan is due in 2016 and has a variable interest rate based on LIBOR plus a spread based on leverage ratio, which at the current leverage ratio is 2.5% and may vary between 2.0% and 3.0%.

After giving effect to the capitalization transactions, $513 million of borrowing capacity would have been available under our new $650 million revolving credit facility. See “Description of Material Indebtedness” for
further information on the HII Credit Facility. We expect that we will obtain approximately $137 million of letters of credit under this facility upon closing to support various performance obligations.

[B] In connection with our recapitalization, we intend to retire the notes payable to parent of $715 million and accrued interest thereon of $239 million, eliminate the parent’s equity in unit of $1,933 million, eliminate the $50 million of pro forma adjustments described below, establish the capital structure ($0 million of common stock and $1,508 million of additional paid-in capital) of HII and make the Contribution of $1,429 million. The $50 million of pro forma adjustments consist of $5 million of capitalized debt issuance costs funded by Northrop Grumman, the removal of $28 million in accumulated Settlement Liabilities associated with Federal Contract Matters (as described in Note [B] of the Unaudited Pro Forma Condensed Consolidated Financial Statements) and the removal of $11 million in liabilities and establishment of $6 million in receivable from Northrop Grumman for uncertain federal and state tax positions (as described in Note [H] of the Unaudited Pro Forma Condensed Consolidated Financial Statements). For purposes of this capitalization table, we have used $.01 per share par value and 48,492,792 shares of HII common stock, calculated using the one-for-six exchange ratio for shares of HII common stock applied to the 290,956,752 shares of Northrop Grumman common stock outstanding as of December 31, 2010 as filed in Northrop Grumman’s Form 10-K. Adjustments to establish the HII common stock and the associated additional paid-in capital were determined based on the stated value of the common stock and the number of shares outstanding.
SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents the selected historical condensed consolidated financial data for NGSB. The condensed consolidated financial data set forth below for the years ended December 31, 2010, 2009, 2008 and 2007 is derived from NGSB’s audited consolidated financial statements. NGSB’s audited consolidated financial statements for the years ended December 31, 2010, 2009 and 2008 are included elsewhere in this information statement. The condensed consolidated financial data as of and for the year ended December 31, 2006 is derived from NGSB’s unaudited consolidated financial statements that are not included in this information statement. The unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of our management include all adjustments necessary for a fair presentation of the information set forth herein.

The selected historical condensed consolidated financial and other data presented below should be read in conjunction with NGSB’s consolidated financial statements and accompanying notes and “Capitalization” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this information statement. NGSB’s condensed consolidated financial data may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we been operating as an independent, publicly owned company during the periods presented, including changes that will occur in our operations and capitalization as a result of the spin-off from Northrop Grumman. See “Unaudited Pro Forma Condensed Consolidated Financial Statements” for a further description of the anticipated changes.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$6,723</td>
<td>$6,292</td>
<td>$6,189</td>
<td>$5,692</td>
<td>$5,319</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td>2,490</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>248</td>
<td>211</td>
<td>(2,354)</td>
<td>447</td>
<td>331</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>135</td>
<td>124</td>
<td>(2,420)</td>
<td>276</td>
<td>194</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,203</td>
<td>5,036</td>
<td>4,760</td>
<td>7,658</td>
<td>7,644</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>105</td>
<td>283</td>
<td>283</td>
<td>283</td>
<td>283</td>
</tr>
<tr>
<td>Total long-term obligations</td>
<td>1,559</td>
<td>1,645</td>
<td>1,761</td>
<td>1,790</td>
<td>1,784</td>
</tr>
<tr>
<td>Free cash flow (1)</td>
<td>168</td>
<td>(269)</td>
<td>121</td>
<td>364</td>
<td>164</td>
</tr>
</tbody>
</table>

(1) Free cash flow is a non-GAAP financial measure and represents cash from operating activities less capital expenditure. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Free Cash Flow” for more information on this measure.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents our unaudited pro forma condensed consolidated financial data, reflecting adjustments to NGSB’s condensed consolidated financial data for the year ended December 31, 2010. NGSB’s condensed consolidated financial data for the year ended December 31, 2010 is derived from NGSB’s audited consolidated financial statements included elsewhere in this information statement.

The unaudited pro forma condensed consolidated financial data for the year ended December 31, 2010 have been prepared to reflect the spin-off, including: (i) the distribution of 48,492,792 shares of HII common stock by Northrop Grumman to its stockholders; (ii) the incurrence of $1,775 million of the HII Debt and the HII Credit Facility by HII and the making of the $1,429 million Contribution; (iii) adjustments for certain federal contract matters in accordance with the Separation and Distribution Agreement; (iv) adjustments for uncertain federal and state tax positions in accordance with the Tax Matters Agreement; (v) the cost of special long-term incentive stock grants, which are contingent upon completion of the spin-off, in the form of restricted stock rights for our Named Executive Officers, including our President, and other key employees; and (vi) the cost of modifying certain terms of existing long-term incentive stock plans to allow continued vesting for our participants. No pro forma adjustments have been included for the Transition Services Agreement, as we expect that the costs for the Transition Services Agreement will be comparable to those included in our historical consolidated financial statements. The unaudited pro forma condensed consolidated statement of operations data presented for the year ended December 31, 2010 assumes the spin-off occurred on January 1, 2010, the first day of fiscal year 2010. Earnings per share calculations are based on the pro forma weighted average shares that would have been outstanding during 2010 (49.5 million shares) determined by applying the one-for-six exchange ratio to Northrop Grumman’s basic weighted average shares outstanding for the year ended December 31, 2010. The unaudited pro forma condensed consolidated statement of financial position data assumes the spin-off occurred on December 31, 2010. The assumptions used and pro forma adjustments derived from such assumptions are based on currently available information and we believe such assumptions are reasonable under the circumstances.

The unaudited pro forma condensed consolidated financial statements are not necessarily indicative of our results of operations or financial condition had the distribution and our anticipated post-spin-off capital structure been completed on the dates assumed. Also, they may not reflect the results of operations or financial condition which would have resulted had we been operating as an independent, publicly owned company during such periods. In addition, they are not necessarily indicative of our future results of operations or financial condition.
### Unaudited Pro Forma Condensed Consolidated Statement of Operations

<table>
<thead>
<tr>
<th>In millions except per share data</th>
<th>Historical</th>
<th>Pro Forma Adjustments</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$ 6,723</td>
<td>$ 6,723</td>
<td></td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td>6,475</td>
<td>(7)[A][B]</td>
<td>6,468</td>
</tr>
<tr>
<td>Operating income</td>
<td>248</td>
<td>7</td>
<td>255</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(40)</td>
<td>(80)[C]</td>
<td>(120)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(2)</td>
<td></td>
<td>(2)</td>
</tr>
<tr>
<td>Earnings before income taxes</td>
<td>206</td>
<td>(73)</td>
<td>133</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>71</td>
<td>(17)[D]</td>
<td>54</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$ 135</td>
<td>$ (56)</td>
<td>$ 79</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>16</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$ 151</td>
<td>$ (56)</td>
<td>$ 95</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td></td>
<td>$ 1.60</td>
<td></td>
</tr>
<tr>
<td>Basic weighted average common shares outstanding</td>
<td></td>
<td>49.5[I]</td>
<td></td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td></td>
<td></td>
<td>1.60</td>
</tr>
<tr>
<td>Diluted weighted average common shares outstanding</td>
<td></td>
<td></td>
<td>49.5[I]</td>
</tr>
</tbody>
</table>

*See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.*
### HII

Unaudited Pro Forma Condensed Consolidated Statement of Financial Position

<table>
<thead>
<tr>
<th>December 31, 2010</th>
<th>Historical</th>
<th>Pro Forma Adjustments</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$728</td>
<td>$300 [E]</td>
<td>$300</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>$728</td>
<td>293</td>
<td>293</td>
</tr>
<tr>
<td>Inventoried costs, net</td>
<td>293</td>
<td>284</td>
<td>284</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>284</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$1,313</td>
<td>$300</td>
<td>$1,613</td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>$1,997</td>
<td>$1,997</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>$1,134</td>
<td>$1,134</td>
<td></td>
</tr>
<tr>
<td>Other purchased intangibles, net</td>
<td>$587</td>
<td>$587</td>
<td></td>
</tr>
<tr>
<td>Pension plan asset</td>
<td>$131</td>
<td>$131</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous other assets</td>
<td>$41</td>
<td>$57 [E][H]</td>
<td>$98</td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td>$1,893</td>
<td>$57</td>
<td>$1,950</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$5,203</td>
<td>$357</td>
<td>$5,560</td>
</tr>
</tbody>
</table>

| Liabilities and equity |            |                        |           |
| Current liabilities   |            |                        |           |
| Notes payable to parent | $715 | ($715)[G] | $29 |
| Current portion of long-term debt | 29 [E] | 29 |
| Trade accounts payable | $274 | $274 |
| Current portion of workers’ compensation liabilities | $197 | $197 |
| Accrued interest on notes payable to parent | $239 | ($239)[G] |
| Current portion of post-retirement plan liabilities | $146 | $146 |
| Accrued employees’ compensation | $203 | $203 |
| Provision for contract losses | $107 | $107 |
| Advance payments and billings in excess of costs incurred | $80 | $80 |
| Other current liabilities | $265 | ($28)[B] | $237 |
| **Total current liabilities** | $2,226 | ($953) | $1,273 |
| Long-term debt        | $105 | $105 |
| Revolving credit facility |                | [F]                        |
| Term loan             | $546 [E] | $546 |
| Senior notes          | $1,200 [E] | $1,200 |
| Other post-retirement plan liabilities | $567 | $567 |
| Pension plan liabilities | $381 | $381 |
| Workers’ compensation liabilities | $351 | $351 |
| Deferred tax liabilities | $99 | $99 |
| Other long-term liabilities | $56 | ($11)[H] | $45 |
| **Total liabilities** | $3,785 | $782 | $4,567 |
| Common stock (par value $.01) |                | [G]                        |
| Additional paid-in-capital | 1,508 [G][E] | 1,508 |
| Parent’s equity in unit | $1,933 | ($1,933)[G] |
| Accumulated other comprehensive loss | ($515) | ($515) |
| **Total equity**      | $1,418 | ($425) | $993 |
| **Total liabilities and equity** | $5,203 | $357 | $5,560 |

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.
Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

[A] We believe that costs required to operate the shipbuilding business as a standalone company approximate those costs allocated to NGSB by Northrop Grumman in the historical NGSB financial statements. Accordingly, no pro forma adjustment has been made for incremental operating costs. However, we have included two adjustments totaling a $13 million increase to cost of sales and service revenues for the year ended December 31, 2010, related to additional stock-based compensation associated with the anticipated spin-off transaction.

In connection with the anticipated spin off, retention stock awards are expected to be granted to key employees to ensure a successful transition and business continuity. Retention grants will be delivered in the form of restricted stock rights with cliff vesting on the third anniversary of the grant. The annual expense for the retention grants included in the pro forma adjustment is $10 million (based on a total grant value of $6 million for the Named Executive Officers (the “NEOs”) and $24 million for other key employees). The total value of these grants was determined based on the criticality of the employee’s position and on a percentage of the employees’ base salary. We cannot determine the number of shares expected to be granted at this time as each share will be valued based on HII’s stock price, which is not yet known.

An additional adjustment of $3 million in compensation expense was included in cost of sales and service revenues to reflect the full year impact of a modification to the terms of Northrop Grumman’s long-term incentive stock plan. The December 2010 modification clarified that certain Northrop Grumman participants transferring to HII would not be deemed terminated under the plan. The plan amendment was made in contemplation of the spin-off to allow continued vesting for our participants. The amount of the adjustment represents the vested portion of the difference between the aggregate value of the incentive awards at the date of the amendment and the value of the awards at their original date of grant.

There is approximately $100 million of products and services provided by Northrop Grumman, at its cost without margin, to HII to support HII’s contracts included in the historical cost of sales and service revenues. Northrop Grumman’s profit margin rate for the type of work provided to NGSB for the year ended December 31, 2010 was approximately 13.4%. Subsequent to the completion of the anticipated spin-off transaction, we will negotiate with Northrop Grumman the terms of future subcontract work to be performed by Northrop Grumman. Because the final terms of such work have not been negotiated and the ultimate margin rates to be paid by HII are unknown, we have not included any pro forma adjustments for incremental subcontract costs.

[B] A reduction of $20 million to cost of sales and service revenues and $28 million to other current liabilities represents the removal of the 2010 costs and Settlement Liabilities, respectively, associated with specific Federal Contract Matters (as defined in the Separation and Distribution Agreement) relating to costs incurred by Northrop Grumman. These amounts were allocated in the historical financial statements to represent HII’s proportionate share of Northrop Grumman’s accruals for claims and audits identifying potentially disallowed costs and penalties. However, the Separation and Distribution Agreement provides that post separation, HII and Northrop Grumman will each be solely responsible for the resolution of their respective pre-separation allowable cost audits relating to costs incurred at either the HII or Northrop Grumman level. The pro forma adjustment removes all costs incurred by Northrop Grumman that were previously allocated to HII, but which will become the sole responsibility of Northrop Grumman post separation pursuant to the Separation and Distribution Agreement. Costs and obligations incurred by HII for its potential disallowed costs and penalties have been included in the consolidated financial statements and are insignificant.

[C] The adjustment to interest expense includes $115 million for the year ended December 31, 2010, related to HII’s issuance of $1,775 million of debt as described in Note [E] and the removal of $35 million of interest associated with the elimination of $27 million in interest on the notes payable to parent as described in Note [G] and $8 million in interest related to the $178 million in Go Zone IRBs that was replaced by an equal amount of note payable to parent in November 2010 and effectively refinanced as part of the HII Debt. The pro forma interest expense of $115 million represents interest expense of $100 million using the interest rates and maturities for the $1,775 debt issuance described in Note [E], plus $4 million in annual fees associated with issued but undrawn letters of credit under the HII Credit Facility, $3 million in annual commitment fees associated with the unutilized balance of the HII Credit Facility and $8 million in amortization of debt issuance costs, determined as described below.

The $27 million interest adjustment was determined by applying the 5% annual interest rate to $537 million of principal for two of the notes payable to parent outstanding for the entire year and by applying the 4.55% annual interest rate to $178 million of principal for the note payable to parent that replaced the Go Zone IRBs in November 2010.
The $4 million interest adjustment for outstanding letters of credit under the HII Credit Facility was determined by applying the 2.75% annual fee rate to the expected $137 million of letters of credit discussed in Note [F]. The $3 million interest adjustment for the unutilized HII Credit Facility was determined by applying the 0.5% annual commitment fee rate to the $513 million of unutilized HII Credit Facility discussed in Note [F].

The amortization of debt issuance costs of $8 million was determined by calculating the annual cost associated with the $51 million of capitalized costs described in Note [E]. The components of the capitalized costs were $25 million for the HII Credit Facility term loan to be amortized over five years, $13 million for the HII Debt note due in 2018 to be amortized over seven years, and $13 million for the other HII Debt note due in 2021 to be amortized over 10 years.

The adjustment to Federal income taxes represents the tax effect of the pro forma adjustments impacting earnings before income taxes calculated using the U.S. statutory tax rate of 35% and an increase of $9 million in tax expense associated with the removal of the liability for uncertain federal tax positions as discussed in Note [H].

These adjustments reflect the incurrence of the HII Debt and entry into the term loan under the HII Credit Facility in an aggregate amount of $1,775 million and the Contribution in the amount of $1,429 million. The $1,200 million in HII Debt consist of a $600 million 6.875% senior note due in 2018 and a $600 million 7.125% senior note due in 2021. The $575 million term loan is due in 2016 and has a variable interest rate based on LIBOR. The rate used in the pro forma adjustment, which averaged 2.84% for 2010, represents the LIBOR rates measured quarterly during the year, plus 2.5%. Costs and expenses related to obtaining the HII Debt including $5 million in costs funded by Northrop Grumman (as discussed in Note [G]), for an estimated total of $51 million, will be capitalized in accordance with GAAP.

After giving effect to the capitalization transactions, $513 million of borrowing capacity would have been available under our new revolving credit facility of $650 million. See “Description of Material Indebtedness” for further information on the HII Credit Facility. We expect that we will obtain approximately $137 million of letters of credit under this facility upon closing to support various performance obligations, and we expect that there will be no outstanding borrowings under this facility at the date of separation.

In connection with our recapitalization, we intend to retire the notes payable to parent of $715 million and accrued interest thereon of $239 million, eliminate the parent’s equity in unit of $1,933 million, eliminate the $50 million of pro forma adjustments described below, establish the capital structure ($0 million of common stock and $1,508 million of additional paid-in capital) of HII and make the Contribution of $1,429 million. The $50 million of pro forma adjustments consist of $5 million of capitalized debt issuance costs funded by Northrop Grumman, the removal of $28 million in accumulated Settlement Liabilities associated with Federal Contract Matters as described in Note [B] and the removal of $11 million in liabilities and establishment of $6 million in receivable from Northrop Grumman for uncertain federal and state tax positions as described in Note [H]. For purposes of these pro forma financial statements, we have used $.01 per share par value and 48,492,792 shares of HII common stock, calculated using the one-for-six exchange ratio for shares of HII common stock applied to the 290,956,752 shares of Northrop Grumman common stock outstanding as of December 31, 2010 as filed in Northrop Grumman’s Form 10-K. Adjustments to establish the HII common stock and the associated additional paid-in capital were determined based on the stated value of the common stock and the number of shares outstanding.

The adjustment of $9 million to federal income taxes and $11 million to other long-term liabilities represents the removal of the 2010 federal tax benefit and liabilities for all uncertain federal tax positions and a portion of the uncertain state tax positions, respectively. These amounts were allocated in the historical financial statements to represent HII’s proportionate share of Northrop Grumman’s liabilities for uncertain federal and state tax positions. However, the Tax Matters Agreement provides that post separation, Northrop Grumman will be solely responsible for the resolution of these pre-separation uncertain tax positions. In certain state tax jurisdictions where NGSB’s pre-separation results were filed in state tax returns separate from Northrop Grumman, the Tax Matters Agreement requires Northrop Grumman to reimburse HII for pre-separation uncertain state tax positions. The adjustment of $6 million to miscellaneous other assets represents a receivable from Northrop Grumman for these items.

The basic and diluted weighted average shares outstanding were determined by applying the one-for-six exchange ratio described in Note [G] to Northrop Grumman’s basic weighted average shares outstanding for the year ended December 31, 2010 of 296,9 million shares as filed in Northrop Grumman’s Form 10-K. We have assumed the same basic and diluted weighted average shares outstanding because the potentially dilutive effect of the outstanding stock awards and stock options was not material.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition together with the audited and unaudited historical consolidated financial statements and the notes thereto included elsewhere in this information statement as well as the discussion in the section of this information statement entitled “Business.” This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this information statement entitled “Risk Factors” and “Special Note About Forward-Looking Statements.”

The consolidated financial statements, which are discussed below, reflect the historical financial condition, results of operations and cash flows of Northrop Grumman Shipbuilding, Inc., which will be our wholly owned subsidiary at the time of the distribution. The financial information discussed below and included in this information statement, however, may not necessarily reflect what our financial condition, results of operations or cash flows would have been had we been a stand alone company during the periods presented or what our financial condition, results of operations and cash flows may be in the future.

Overview

The Spin-Off

On March 14, 2011, Northrop Grumman approved the spin-off of HII from Northrop Grumman, following which we will be an independent, publicly owned company. As part of the spin-off, Northrop Grumman will complete an internal reorganization, as described in “The Spin-Off—Background.” To complete the spin-off, Northrop Grumman will, following the internal reorganization, distribute to its stockholders all of the shares of our common stock. After completion of the spin-off we will be an independent, publicly owned company and will own and operate the Northrop Grumman shipbuilding business. The spin-off is subject to certain customary conditions. We also expect to enter into a series of agreements with Northrop Grumman, including the Separation and Distribution Agreement and other agreements, which will govern the relationship between us and Northrop Grumman after completion of the spin-off and provide for the allocation between us and Northrop Grumman of various assets, liabilities and obligations (including employee benefits, intellectual property, insurance and tax-related assets and liabilities). These agreements are described in “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off.” Consummation of the spin-off is subject to the satisfaction or waiver of certain conditions, as described in “The Spin-Off—Conditions to the Spin-Off.”

Our Business

Our business is organized into two operating segments, Gulf Coast and Newport News, which also represent our reportable segments. Through our Gulf Coast shipyards, we are the sole supplier and builder of amphibious assault and expeditionary warfare ships to 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 U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers. Through our Newport News shipyard, we are the nation’s sole industrial 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. We build more ships, in more ship types and classes, than any other U.S. naval shipbuilder. We are the exclusive provider of RCOH services for nuclear-powered aircraft carriers, a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. As prime contractor, principal subcontractor, team member or partner, we participate in many high-priority defense technology programs in the United States. We conduct most of our business with the U.S. Government, principally the Department of Defense.
Factors Affecting Our Results of Operations

Our operating results are primarily affected by the following factors:

Contracts

We generate the majority of our business from long-term 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 costs. Unless otherwise specified in a contract, costs billed to contracts with the U.S. Government are determined under the requirements of the FAR and Cost Accounting Standards ("CAS") regulations as allowable and allocable costs. Examples of costs incurred by us and not billed to the U.S. Government in accordance with the requirements of the FAR and CAS regulations include, but are not limited to, 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, costs incurred and allocated to contracts with the U.S. Government are routinely audited by the Defense Contract Audit Agency.

Our long-term contracts typically fall into one of two broad categories:

Flexiblely Priced Contracts—Includes both cost-type and fixed-price incentive contracts. Cost-type contracts provide for reimbursement of the contractor’s allowable costs incurred 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. Fixed-price incentive contracts also provide for reimbursement of the contractor’s allowable costs, but are subject to a cost-share limit which affects profitability. Fixed-price incentive contracts effectively become firm fixed-price contracts once the cost-share limit is reached.

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 pre-determined by bid or negotiation, and not generally subject to adjustment regardless of costs incurred by the contractor. Time-and-materials contracts are considered firm fixed-price contracts as they specify a fixed hourly rate for each labor hour charged.

Approximately 99% of our 2010 revenue was generated by flexibly priced contracts (including certain fixed-price incentive contracts which have exceeded their cost-share limit), with the remaining 1% from firm fixed-price arrangements. Substantially all of our revenue for 2010 was derived from the U.S. Government.

Contract Fees—Negotiated contract fee structures for both flexibly priced and fixed-price contracts include, but are not limited to: fixed-fee amounts, cost sharing arrangements to reward or penalize for either under or over cost target performance, 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 provisions consisting of 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. Fees that can be reasonably assured and reasonably estimated are recorded over the performance period of the contract.

Impacts from Hurricanes

In August 2005, our shipyards in Louisiana and Mississippi sustained significant windstorm damage as a result of Hurricane Katrina, causing work and production delays. We incurred costs to replace or repair and improve destroyed and damaged assets, suffered losses under our contracts and incurred substantial costs to clean up and recover our operations. We invested significant capital to harden, protect and modernize our Pascagoula facilities, and to ensure the shipyard’s robustness. In 2008, as a result of Hurricane Gustav, our Gulf Coast shipyards experienced a shut-down for several days and a resulting minor delay in ship construction throughout the yards;
However, the storm caused no significant physical damage to the yards, we believe in part due to our successful hardening and improvement after Hurricane Katrina. Also in 2008, Hurricane Ike severely impacted a subcontractor’s operations in Texas. The subcontractor produced compartments for two of the LPD amphibious transport dock ships under construction at the Gulf Coast shipyards. As a result of the delays and cost growth caused by the subcontractor’s production delays, our operating income was reduced during the second half of 2008.

**Recent Developments in U.S. Cost Accounting Standards (CAS) Pension Recovery Rules**

A substantial portion of our current and retired employee population is covered by pension plans, the costs of which are dependent upon various assumptions, including estimates of rates of return on benefit-related assets, discount rates for future payment obligations, rates of future cost growth and trends for future costs. In addition, funding requirements for benefit obligations of our pension plans are subject to legislative and other government regulatory actions. For example, due to government regulations, pension plan cost recoveries under our government contracts may occur in different periods from when those pension costs are accrued for financial statement purposes or when pension funding is made. Timing differences between pension costs accrued for financial statement purposes or when pension funding occurs compared to when such costs are recoverable as allowable costs under our government contracts could have a material adverse effect on our cash flow from operations. See “Notes to Consolidated Financial Statements—Note 17.”

In addition, on May 10, 2010, the CAS Board published a Notice of Proposed Rulemaking ("NPRM") that, if adopted, would provide a framework to partially harmonize the CAS rules with the Pension Protection Act of 2006 ("PPA") funding requirements. The NPRM would “harmonize” by partially mitigating the mismatch between CAS costs and PPA-amended ERISA minimum funding requirements. Until the final rule is published, and to the extent that the final rule does not completely eliminate mismatches between ERISA funding requirements and CAS pension costs, government contractors maintaining defined benefit pension plans will continue to experience a timing mismatch between required contributions and pension expenses recoverable under CAS. We expect the rule to be issued in 2011. The final rule is expected to apply to contracts starting the year following the award of the first CAS covered contract after the effective date of the new rule. This would mean the rule would most likely apply to our contracts in 2012. We anticipate that contractors will be entitled to an equitable adjustment on existing contracts for any additional CAS contract costs resulting from the final rule.

**Consolidated Operating Results**

Selected financial highlights are presented in the table below:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$6,723</td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td>5,812</td>
</tr>
<tr>
<td>Corporate home office and general and administrative costs</td>
<td>663</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>248</td>
</tr>
<tr>
<td>Interest expense</td>
<td>40</td>
</tr>
<tr>
<td>Other, net</td>
<td>(2)</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>71</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>135</td>
</tr>
</tbody>
</table>

**Operating Performance Assessment and Reporting**

We manage and assess the performance of our businesses based on our performance on individual contracts and programs obtained generally from government organizations using the financial measures referred to below, with consideration given to the Critical Accounting Policies, Estimates, and Judgments described in our Notes to Consolidated Financial Statements. Our portfolio of long-term contracts is largely flexibly-priced, which means that sales tend to fluctuate in concert with costs across our large portfolio of active contracts, with operating income.

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being a critical measure of operational performance. Due to FAR rules that govern our business, most types of costs are allowable, and we do not focus on individual cost groupings (such as cost of sales or general and administrative costs) 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, and 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. Unusual fluctuations in operating performance driven by changes in a specific cost element across multiple contracts, however, are described in our analysis.

Sales and Service Revenues

Sales and service revenues consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Product sales</td>
<td>$5,798</td>
</tr>
<tr>
<td>Service revenues</td>
<td>925</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>$6,723</td>
</tr>
</tbody>
</table>

2010—Product sales increased $752 million, or 15%, from 2009. The increase is primarily due to higher sales volume in the LPD and LHA expeditionary warfare programs, the CVN-78 Gerald R. Ford aircraft carrier construction program, the CVN-71 USS Theodore Roosevelt RCOH and the SSN-774 Virginia-class submarine construction program. These increases were partially offset by reduced sales in 2010 due to the 2009 deliveries of LHD-8 USS Makin Island and CVN-77 USS George H.W. Bush. Additionally, during the second quarter of 2010 we announced the wind down of shipbuilding operations at the Avondale facility in 2013 (see “Notes to Consolidated Financial Statements—Note 4”) and reduced product revenues by $115 million to reflect revised estimates to complete LPD-23 and LPD-25. In 2009, we reduced product revenues by $160 million to reflect revised estimates to complete the LPD-class ships and LHA-6 America.

Service revenues decreased $321 million, or 26%, from 2009. The decrease is primarily due to the completion of the CVN-65 USS Enterprise Extended Dry-docking Selected Restricted Availability (“EDSRA”) in the second quarter of 2010.

2009—Product sales decreased $161 million, or 3%, from 2008. The decrease was primarily due to the delivery of several ships in the second and third quarters of 2009, including the aircraft carrier CVN-77 USS George H.W. Bush, the expeditionary ship LHD-8 USS Makin Island, and the surface combatant DDG-105 USS Dewey. The lower volume associated with these ship deliveries during the year was partially offset by higher sales on the construction of SSN-774 Virginia-class submarines and production ramp-ups in the LPD program.

Service revenues increased $264 million, or 27%, from 2008. The increase was primarily due to higher volume on the CVN-65 USS Enterprise EDSRA and Post-Shakedown Availabilities on the CVN-77 USS George H.W. Bush and CVN-70 USS Carl Vinson.
### Cost of Sales and Service Revenues

Cost of sales and service revenues and corporate home office and other general and administrative costs were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Cost of product sales</td>
<td>$5,042</td>
</tr>
<tr>
<td>% of product sales</td>
<td>87.0%</td>
</tr>
<tr>
<td>Cost of service revenues</td>
<td>$770</td>
</tr>
<tr>
<td>% of service revenues</td>
<td>83.2%</td>
</tr>
<tr>
<td>Corporate home office and general and administrative costs</td>
<td>$663</td>
</tr>
<tr>
<td>% of total sales and service revenues</td>
<td>9.9%</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td>$6,475</td>
</tr>
</tbody>
</table>

#### Cost of Product Sales and Service Revenues

**2010**—Cost of product sales increased $627 million, or 14%, from 2009 primarily as a result of the higher sales volume described above. Cost of product sales as a percentage of product sales declined slightly year over year principally as a result of lower unfavorable margin adjustments in our Gulf Coast segment in 2010 relative to 2009 (see “Segment Operating Income (Loss)” below).

Cost of service revenues decreased $257 million, or 25%, from 2009 primarily as a result of the lower sales volume described above. The modest increase in cost of service revenues as a percentage of service revenues is the result of normal year-to-year variances in contract mix.

**2009**—Cost of product sales in 2009 decreased $257 million, or 6%, from 2008 primarily as a result of the lower sales volume described above. Cost of product sales as a percentage of product sales declined year over year principally as a result of lower unfavorable margin adjustments in our Gulf Coast segment in 2009 relative to 2008 (see “Segment Operating Income (Loss)” below).

Cost of service revenues in 2009 increased $210 million, or 26%, from 2008 primarily as a result of the higher sales volume described above. The modest decrease in cost of service revenues as a percentage of service revenues is the result of normal year-to-year variances in contract mix.

#### Corporate Home Office and Other General and Administrative Costs

In accordance with industry practice and the regulations that govern the cost accounting requirements for government contracts, most corporate home office and other general and administrative costs 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.

**2010**—Corporate home office and other general and administrative expenses in 2010 increased to $663 million from $639 million in 2009 primarily as a result of higher cost allocations for Northrop Grumman management and support services. The Northrop Grumman management and support services expense in 2010 increased to $115 million from $82 million in 2009. The increase in management and support services allocations reflects higher employee compensation expenses in 2010 and the impact of the final allocation of prior year overheads. As a percentage of total sales and service revenues, these costs decreased year over year due principally to the higher sales volume in 2010.

**2009**—Corporate home office and other general and administrative expenses in 2009 increased to $639 million from $564 million in 2008 primarily as a result of higher net pension and post-retirement benefits expense and increased state tax expense. These 2009 increases were partially offset by lower cost allocations for Northrop Grumman management and support services, which included a larger favorable impact of final allocation of prior
year overheads. As a percentage of total sales and service revenues, these costs increased year over year due principally to the cost increases described above, partially offset by the higher sales volume in 2009.

Goodwill Impairment

In 2008, we recorded a non-cash charge totaling $2.5 billion for the impairment of goodwill, driven primarily by adverse equity market conditions that caused a decrease in current market multiples and Northrop Grumman’s stock price as of November 30, 2008. See “Notes to Consolidated Financial Statements—Note 9.”

Operating Income (Loss)

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 corporate home office and other general and administrative costs.

We internally manage our operations by reference to “segment operating income.” Segment operating income is defined as operating income before net pension and post-retirement benefits adjustment and deferred state income taxes, neither of which affects segment performance. Segment operating income is one of the key metrics we use to evaluate operating performance. Segment operating income is not, however, a measure of financial performance under the generally accepted accounting principles in the United States of America (“GAAP”), and may not be defined and calculated by other companies in the same manner.

The table below reconciles segment operating income to total operating income:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment operating income (loss)</td>
<td>$294</td>
<td>$284</td>
<td>$(2,328)</td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(49)</td>
<td>(88)</td>
<td>(25)</td>
</tr>
<tr>
<td>Deferred state income taxes</td>
<td>3</td>
<td>15</td>
<td>(1)</td>
</tr>
<tr>
<td>Total operating income (loss)</td>
<td>$248</td>
<td>$211</td>
<td>$(2,354)</td>
</tr>
</tbody>
</table>

Segment Operating Income (Loss)

2010—Segment operating income was $294 million, an increase of $10 million from 2009. Segment operating income was 4.3% and 4.5% of sales and service revenues for 2010 and 2009, respectively. In 2010, we recorded net performance adjustments of $132 million on the LPD-22 through LPD-25 contract, including the effect of a $113 million charge for the cumulative effect of the $210 million of incremental costs expected in connection with our decision to wind down shipbuilding operations at the Avondale facility in 2013 (see “Notes to Consolidated Financial Statements—Note 4”). Results for 2010 also include an unfavorable adjustment of $30 million to reflect additional costs to complete post-delivery work on LHD-8 USS Makin Island (see “Notes to Consolidated Financial Statements—Note 6”). Activity within each segment is discussed in “—Segment Operating Results” below.

2009—Segment operating income was $284 million as compared with a segment operating loss of $2.3 billion in 2008. The increase was primarily due to the 2008 goodwill impairment charge of $2.5 billion (see “Notes to Consolidated Financial Statements—Note 9”), and improved performance on the LHD expeditionary warfare program as compared to 2008. In 2008, the Gulf Coast segment had net negative performance adjustments of $263 million due principally to adjustments on the LHD-8 contract, as well as cost growth and schedule delays on the LPD program and the effects of Hurricane Ike on a subcontractor’s performance (see “Notes to Consolidated Financial Statements—Notes 6 and 15”).
Net Pension and Post-Retirement Benefits Adjustment

Net pension and post-retirement benefits adjustment reflects the difference between expenses for pension and other post-retirement benefits determined in accordance with GAAP and the expenses for these items included in segment operating income in accordance with CAS.

2010—The net pension and post-retirement benefits adjustment was an expense of $49 million and $88 million in 2010 and 2009, respectively. The decrease in net expense in 2010 is primarily due to lower GAAP pension expense principally as a result of favorable returns on pension plan assets in 2009.

2009—The net pension and post-retirement benefits adjustment was an expense of $88 million and $25 million in 2009 and 2008, respectively. The increase in net expense in 2009 was primarily due to negative returns on plan assets in 2008.

Deferred State Income Taxes

Deferred state income taxes reflect the change in deferred state tax assets and liabilities in the period. These amounts are recorded within operating income while the current period state income tax expense is charged to contract costs and included in cost of sales and service revenues in segment operating income.

2010—The benefit provided by deferred state income taxes in 2010 was $3 million, compared to a benefit of $15 million in 2009. The change was primarily due to the timing of contract-related deductions.

2009—The benefit provided by deferred state income taxes in 2009 was $15 million, compared to an expense of $1 million in 2008. The change was primarily due to the timing of contract-related deductions.

Interest Expense

2010—Interest expense in 2010 increased $4 million as compared with 2009. The increase is primarily due to lower capitalized interest in 2010, which resulted from a lower level of long-term capital projects in 2010 as compared to 2009.

2009—Interest expense in 2009 decreased $4 million, or 10%, as compared with 2008. The decrease is primarily due to higher capitalized interest in 2009, which resulted from a higher level of long-term capital projects in 2009 as compared to 2008.

Other, net

2010—Other, net for 2010 decreased $3 million as compared with 2009. The decrease is primarily due to the write off of $2 million of capitalized debt issuance costs associated with the partial retirement of GO Zone IRBs in the fourth quarter of 2010 pursuant to a tender offer. See “— Financing Activities” below and also “Notes to Consolidated Financial Statements—Note 11.”

U.S. Federal Income Taxes

2010—Our effective tax rate on earnings from continuing operations for 2010 was 34.5% compared with 29.5% in 2009. The increase in effective tax rate is due to the elimination of certain tax benefits with the passage of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 and a decrease in the manufacturers’ deduction and the expiration of wage credit benefits, partially offset by the effects of the settlement with the Internal Revenue Service and the U.S. Congressional Joint Committee on Taxation of our parent’s tax returns for the years 2004 through 2006. See “Notes to Consolidated Financial Statements—Note 10.”

2009—Our effective tax rate on earnings from continuing operations for 2009 was 29.5% compared with 27.1% in 2008 (excluding the non-cash, non-deductible goodwill impairment charge of $2.5 billion). The effective tax rate for 2008 was lower than 2009 due to the benefit of a higher wage credit in 2008 offset by a higher manufacturing deduction in 2009.
Table of Contents
Segment Operating Results

Basis of Presentation

We are aligned into two reportable segments: Gulf Coast and Newport News.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td><strong>Sales and Service Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$3,027</td>
</tr>
<tr>
<td>Newport News</td>
<td>3,775</td>
</tr>
<tr>
<td>Intersegment eliminations</td>
<td>(79)</td>
</tr>
<tr>
<td><strong>Total sales and service revenues</strong></td>
<td>$6,723</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$(61)</td>
</tr>
<tr>
<td>Newport News</td>
<td>555</td>
</tr>
<tr>
<td><strong>Total Segment Operating Income (Loss)</strong></td>
<td>294</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Non-segment factors affecting operating income (loss)</td>
<td></td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(49)</td>
</tr>
<tr>
<td>Deferred state income taxes</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total operating income (loss)</strong></td>
<td>$248</td>
</tr>
</tbody>
</table>

Key Segment Financial Measures

**Sales and Service Revenues**

Period-to-period sales 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**

Segment operating income reflects the aggregate performance results of contracts within a business area or segment. Excluded from this measure are certain costs not directly associated with contract performance, including net pension and post-retirement benefits expenses and deferred state income taxes. Changes in segment operating income are typically expressed in terms of volume, as discussed in Sales and Service Revenues above, or performance. Performance refers to changes in contract margin rates. These changes typically relate to profit recognition associated with revisions to total estimated costs at completion of the contract (“EAC”) that reflect improved (or deteriorated) operating performance on a particular 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.
Program Descriptions

For convenience, a brief description of certain programs discussed in this registration statement on Form 10 is included in the “Glossary of Programs” beginning on page 18.

Gulf Coast

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>$ in millions</td>
<td>$3,027</td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>(61)</td>
</tr>
<tr>
<td>Segment operating loss</td>
<td>(2.0%)</td>
</tr>
</tbody>
</table>

Sales and Service Revenues

2010—Gulf Coast revenues increased $162 million, or 6%, from 2009, primarily driven by $339 million higher sales in Expeditionary Warfare, partially offset by $122 million lower sales in Surface Combatants and $62 million lower sales in Coast Guard & Coastal Defense. The increase in Expeditionary Warfare was due to higher sales volume in the LPD program and on LHA-6 America, partially offset by lower sales in 2010 due to the delivery of LHD-8 USS Makin Island in 2009. The decrease in Surface Combatants was primarily due to lower sales volume on the DDG-51 program following delivery of DDG-105 USS Dewey in the third quarter of 2009. The decrease in Coast Guard & Coastal Defense was primarily due to lower sales volume following delivery of NSC-2 USCGC Waesche in the fourth quarter of 2009.

2009—Gulf Coast revenues increased $17 million from 2008, primarily driven by $81 million higher sales in Expeditionary Warfare, partially offset by $64 million lower sales in Surface Combatants. The increase in Expeditionary Warfare was due to higher sales volume in the LPD program due to production ramp-ups, partially offset by the delivery of LHD-8 USS Makin Island in the second quarter of 2009. The decrease in Surface Combatants was primarily due to lower sales volume on the DDG-51 program following delivery of DDG-105 USS Dewey in the third quarter.

Segment Operating Income

2010—Gulf Coast operating loss was $61 million as compared with a loss of $29 million in 2009. The increase in operating loss was caused primarily by unfavorable performance on Expeditionary Warfare programs and a lower level of operating income on other programs resulting from the sales volume reductions described above. In Expeditionary Warfare, we recorded net performance adjustments of $132 million on the LPD-22 through LPD-25 contract, including the effect of a $113 million charge for the cumulative effect of the $210 million of incremental costs expected in connection with our decision to wind down shipbuilding operations at the Avondale facility in 2013 (see “Notes to Consolidated Financial Statements—Note 4”). Additionally, we recognized an unfavorable adjustment of $30 million to reflect additional costs to complete post-delivery work on LHD-8 USS Makin Island (see “Notes to Consolidated Financial Statements—Note 6”). In 2009, operating income included a favorable adjustment of $54 million on the LHD-8 contract, which was more than offset by unfavorable adjustments of $38 million and $171 million on the DDG-51 and LPD programs, respectively.

2009—Gulf Coast operating loss was $29 million as compared with a loss of $1.4 billion in 2008. The change was primarily due to the 2008 goodwill impairment charge of $2.5 billion, of which the Gulf Coast segment realized $1.3 billion (see “Notes to Consolidated Financial Statements—Note 9”), and improved performance on LHD-8 USS Makin Island as compared to 2008. In 2008, Gulf Coast had net negative performance adjustments of $263 million due principally to adjustments on the LHD-8 contract, as well as cost growth and schedule delays on the LPD program and the effects of Hurricane Ike on an LPD subcontractor’s performance. The absence of these unfavorable events in 2009 was partially offset by $171 million in net unfavorable performance adjustments in 2009 on the LPD-22 through LPD-25 contract (see “Notes to Consolidated Financial Statements—Note 6”).
Newport News

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$3,775</td>
</tr>
<tr>
<td>Segment operating income (loss)</td>
<td>355</td>
</tr>
<tr>
<td>As a percentage of segment sales</td>
<td>9.4%</td>
</tr>
</tbody>
</table>

Sales and Service Revenues

2010—Newport News revenues increased $241 million, or 7%, from 2009, primarily driven by $148 million higher sales in Aircraft Carriers and $108 million higher sales in Submarines. The increase in Aircraft Carriers was primarily due to higher sales volume on CVN-78 Gerald R. Ford and CVN-71 USS Theodore Roosevelt RCOH, partially offset by lower volume in 2010 on CVN-77 USS George H.W. Bush and CVN-70 USS Carl Vinson RCOH, both of which were completed in the second quarter of 2009. The increase in Submarines was primarily due to higher sales volume on the construction of SSN-774 Virginia-class submarines.

2009—Newport News revenues increased $107 million, or 3%, from 2008, primarily driven by $176 million higher sales in Submarines and $26 million higher sales in Aircraft Carriers, partially offset by $111 million lower sales in Fleet Support. The increase in Submarines was primarily due to higher sales volume on the construction of SSN-774 Virginia-class submarines. The increase in Aircraft Carriers was primarily due to higher sales volume on CVN-78 Gerald R. Ford, CVN-65 USS Enterprise EDSRA, and CVN-71 USS Theodore Roosevelt RCOH, partially offset by lower volume on CVN-77 USS George H.W. Bush and CVN-70 USS Carl Vinson RCOH, both of which were completed in the second quarter of 2009. The decrease in Fleet Support was primarily due to the redelivery of the USS Toledo submarine in the first quarter of 2009 and decreased carrier fleet support services.

Segment Operating Income

2010—Newport News operating income was $355 million compared with $313 million in 2009. The increase was primarily due to the impact of the sales volume changes described above, improved operating performance on Aircraft Carriers and higher earnings from the company’s equity method investments, which totaled $19 million and $10 million in 2010 and 2009, respectively (see “Notes to Consolidated Financial Statements—Note 12”).

2009—Newport News operating income was $313 million as compared with a loss of $895 million in 2008. The increase was primarily due to the 2008 goodwill impairment charge of $2.5 billion, of which the Newport News segment realized $1.2 billion (see “Notes to Consolidated Financial Statements—Note 9”). Additionally, the change in segment operating income in 2009 includes the impact of the higher sales volume described above for Aircraft Carriers and Submarines, partially offset by the impact of lower sales volume in Fleet Support.

Backlog

Total backlog at December 31, 2010 was approximately $17 billion. 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 Indefinite Delivery/Indefinite Quantity (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 at December 31, 2010 and 2009:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Funded</td>
<td>Unfunded</td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$4,317</td>
<td>$581</td>
</tr>
<tr>
<td>Newport News</td>
<td>5,248</td>
<td>7,191</td>
</tr>
<tr>
<td>Total backlog</td>
<td>$9,565</td>
<td>$7,772</td>
</tr>
</tbody>
</table>
Backlog is converted into the following years’ sales as costs are incurred or deliveries are made. Approximately 31% of the $17 billion total backlog at December 31, 2010 is expected to be converted into sales in 2011. Total U.S. Government orders comprised substantially all of the total backlog at the end of 2010.

Awards

2010—The value of new contract awards during the year ended December 31, 2010, was approximately $3.6 billion. Significant new awards during this period include $480 million for the construction of the U.S. Coast Guard’s fourth National Security Cutter (unnamed), $480 million for design and long-lead material procurement activities for the CVN-79 aircraft carrier (unnamed), $377 million for CVN-78 Gerald R. Ford, $224 million for LHA-7 (unnamed), $184 million for LPD-26 John P. Murtha, $114 million for DDG-114 Callaghan and $62 million for long-lead material procurement activities for LPD-27 (unnamed).

2009—The value of new contract awards during the year ended December 31, 2009, was approximately $4.3 billion. Significant new awards during this period include a contract valued at up to $2.4 billion for the CVN-71 USS Theodore Roosevelt RCOH, a contract valued at up to $635 million for engineering, design and modernization support of submarines, and $374 million for design and long-lead material procurement activities for the CVN-79 (unnamed) aircraft carrier.

Backlog Adjustments

In 2009, Gulf Coast segment backlog includes a decrease of $670 million for the customer’s restructuring of the DDG-1000 program.

Liquidity and Capital Resources

We endeavor to ensure the most efficient conversion of operating results into cash for deployment in operating our businesses and maximizing stockholder value. We effectively utilize our capital resources through working capital management, capital expenditures, strategic business acquisitions, debt service, required and voluntary pension contributions, and returning cash to stockholders through Northrop Grumman.

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

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>$135</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(19)</td>
</tr>
<tr>
<td>Other non-cash items (1)</td>
<td>183</td>
</tr>
<tr>
<td>Retiree benefit funding less than (in excess of) expense</td>
<td>33</td>
</tr>
<tr>
<td>Trade working capital decrease (increase)</td>
<td>27</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>$359</td>
</tr>
</tbody>
</table>

(1) Includes depreciation and amortization.

Cash Flows

The following is a discussion of our major operating, investing and financing activities for each of the three years in the period ended December 31, 2010, as classified on the consolidated statements of cash flows.
Operating Activities

2010—Net cash provided by operating activities was $359 million in 2010 compared with cash used of $88 million in 2009. The change of $447 million was due principally to a decrease in discretionary pension contributions of $97 million, a decrease in trade working capital of $299 million, and a decrease in deferred income taxes of $79 million. In 2009, trade working capital balances included the unfavorable impact of delayed customer billings associated with the negative performance adjustments on the LPD-22 through LPD-25 contract due to projected cost increases at completion (see “Notes to Consolidated Financial Statements—Note 6”). The change in deferred taxes was due principally to the timing of contract-related deductions. U.S. Federal income tax payments made by Northrop Grumman on our behalf were $89 million in 2010.

We expect cash generated from operations for 2011 to be sufficient to service debt, meet contract obligations, and finance capital expenditures. Although 2011 cash from operations is expected to be sufficient to service these obligations, we may borrow funds from Northrop Grumman to accommodate timing differences in cash flows. After completion of the spin-off, we will be an independent, publicly owned company and we expect to obtain any funds needed from third parties through the capital markets or bank financing.

2009—Net cash provided by operating activities in 2009 decreased $427 million as compared with 2008, due primarily to an increase in trade working capital of $366 million and an increase in deferred income taxes of $108 million. The trade working capital change resulted primarily from the unfavorable impact of delayed customer billings associated with the negative performance adjustments on the LPD-22 through LPD-25 contract due to projected cost increases at completion (see “Notes to Consolidated Financial Statements—Note 6”). The change in deferred taxes was due to the timing of contract-related deductions. U.S. Federal income tax payments made by Northrop Grumman on our behalf were $132 million in 2009.

2008—Net cash provided by operating activities in 2008 decreased $271 million as compared with 2007, due primarily to lower net earnings (adjusted for non-cash goodwill impairment), an increase in discretionary pension contributions of $60 million, and a smaller year-over-year decrease in trade working capital of $50 million. The lower net earnings were the result of unfavorable performance on LHD-8 USS Makin Island (see “Notes to Consolidated Financial Statements—Note 6”). The change in trade working capital reflected the receipt in 2007 of $123 million of insurance proceeds related to Hurricane Katrina, partially offset by the impact of Hurricanes Ike and Gustav (see “Notes to Consolidated Financial Statements—Note 15”). U.S. Federal income tax payments made by Northrop Grumman on our behalf were $21 million in 2008.

Investing Activities

2010—Cash used by investing activities was $189 million in 2010, principally for capital expenditures.

2009—Cash used by investing activities was $178 million in 2009, due principally to $181 million in capital expenditures.

2008—Cash used by investing activities was $152 million in 2008, due primarily to $218 million in capital expenditures. During 2008, we received $61 million from the release of restricted cash related to the GO Zone IRBs (see “Notes to Consolidated Financial Statements—Note 11”).

Financing Activities

Transactions between Northrop Grumman and us are reflected as effectively settled for cash at the time of the transaction and are included in financing activities in the consolidated statements of cash flows. The net effect of these transactions is reflected in the parent’s equity in unit in the consolidated statements of financial position.

2010—In connection with the potential spin-off, on November 30, 2010, NGSB purchased $178 million of the outstanding principal amount of GO Zone IRBs pursuant to a tender offer. NGSB used the proceeds of an intercompany loan for $178 million with Northrop Grumman to purchase the GO Zone IRBs and submitted the purchased bonds to the trustee for cancellation. See “Notes to Consolidated Financial Statements—Note 11.”
Free Cash Flow

Free cash flow represents cash from operating activities less capital expenditures. We believe free cash flow is a useful measure for investors to consider. This measure is a key factor in our planning.

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

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

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Net cash provided by (used in) operating activities</td>
<td>$ 359</td>
</tr>
<tr>
<td>Less capital expenditures</td>
<td>(191)</td>
</tr>
<tr>
<td>Free cash flow from operations</td>
<td>$ 168</td>
</tr>
</tbody>
</table>

Other Sources and Uses of Capital

Additional Capital—Northrop Grumman currently provides certain capital needed in excess of the amounts generated by our operating activities. After completion of the spin-off, we will be an independent, publicly owned company and we expect to obtain any funds needed from third parties through the capital markets or bank financing, and not from Northrop Grumman. We expect cash generated from operations for 2011 to be sufficient to service debt, meet contractual obligations and finance capital expenditures.

We have (i) incurred $1,200 million of HII Debt (consisting of a $600 million 6.875% senior note due in 2018 and a $600 million 7.125% senior note due in 2021) and (ii) entered into the HII Credit Facility with third-party lenders (in an amount of $1,225 million, comprising a $575 million term loan (due in 2016 with a variable interest rate based on LIBOR plus a spread based on leverage ratio, which at the current leverage ratio is 2.5% and which may vary between 2.0% and 3.0%); that is expected to be funded in connection with the internal reorganization, and a $650 million revolving credit facility (maturing in 2016 with a variable interest rate on drawn borrowings based on LIBOR plus a spread based upon leverage ratio, which spread at the current leverage ratio is 2.5% and which may vary between 2.0% and 3.0%; and with a commitment fee rate on the unutilized balance based on leverage ratio, which fee rate at the current leverage ratio is 0.5% and which may vary between 0.35% and 0.5%), of which approximately $137 million of letters of credit are expected to be issued but undrawn at the time of the spin-off, and the remaining $513 million of which will be unutilized at that time. See “Description of Material Indebtedness.” The proceeds of the HII Debt and the HII Credit Facility are to be used to fund the $1,429 million Contribution and for general corporate purposes in the amount of $300 million.

Financial Arrangements—In the ordinary course of business, Northrop Grumman uses standby letters of credit issued by commercial banks and surety bonds issued by insurance companies principally to support our self-insured workers’ compensation plans. At December 31, 2010, there were $125 million of unused stand-by letters of credit and $296 million of surety bonds outstanding related to our operations. After completion of the spin-off, we will be an independent, publicly owned company. We are working to obtain similar arrangements from the capital markets as needed although we may not be able to obtain letters of credit and surety bonds in the same amount and on as favorable terms and conditions as prior to the spin-off.

Contractual Obligations

In connection with the spin-off, we intend to enter into a Transition Services Agreement with Northrop Grumman, under which Northrop Grumman or certain of its subsidiaries will provide us with certain services for a limited time to help ensure an orderly transition following the distribution.

We anticipate that under the Transition Services Agreement, Northrop Grumman will provide certain enterprise shared services (including information technology, resource planning, financial, procurement and human resource services), benefits support services and other specified services to HII. We expect these services will be provided at cost and are planned to extend generally for a period of six to twelve months. See “Certain

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In connection with the spin-off, we also intend to enter into a Tax Matters Agreement with Northrop Grumman that will govern the respective rights, responsibilities and obligations of Northrop Grumman and us after the spin-off with respect to tax liabilities and benefits, tax attributes, tax contests and other tax sharing regarding U.S. Federal, state, local and foreign income taxes, other taxes and related tax returns. As a subsidiary of Northrop Grumman, we have (and will continue to have following the spin-off) several liability with Northrop Grumman to the IRS for the consolidated U.S. Federal income taxes of the Northrop Grumman consolidated group relating to the taxable periods in which we were part of that group. However, we expect that the Tax Matters Agreement will specify the portion, if any, of this tax liability for which we will bear responsibility, and Northrop Grumman will agree to indemnify us against any amounts for which we are not responsible. We expect that the Tax Matters Agreement will also provide special rules for allocating tax liabilities in the event that the spin-off, together with certain related transactions, is not tax-free. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Tax Matters Agreement.”

We do not expect either the Transition Services Agreement or the Tax Matters Agreement to have a significant impact on our financial condition and results of operations.

The following table presents our contractual obligations and pro forma adjustments reflecting separation from Northrop Grumman as of December 31, 2010, and the estimated timing of future cash payments:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Total</th>
<th>2011</th>
<th>2012-2013</th>
<th>2014-2015</th>
<th>2016 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable to parent (1)</td>
<td>$715</td>
<td>$715</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent (1)</td>
<td>239</td>
<td>239</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>105</td>
<td></td>
<td>105</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest payments on long-term debt</td>
<td>105</td>
<td>8</td>
<td>15</td>
<td>15</td>
<td>67</td>
</tr>
<tr>
<td>Operating leases</td>
<td>137</td>
<td>21</td>
<td>36</td>
<td>25</td>
<td>55</td>
</tr>
<tr>
<td>Purchase obligations (2)</td>
<td>1,972</td>
<td>1,045</td>
<td>733</td>
<td>190</td>
<td>4</td>
</tr>
<tr>
<td>Other long-term liabilities (3)</td>
<td>587</td>
<td>76</td>
<td>127</td>
<td>82</td>
<td>302</td>
</tr>
<tr>
<td>Total contractual obligations</td>
<td>$3,860</td>
<td>$2,104</td>
<td>$911</td>
<td>$312</td>
<td>$533</td>
</tr>
</tbody>
</table>

**Pro forma adjustments reflecting separation from parent**

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Total</th>
<th>2011</th>
<th>2012-2013</th>
<th>2014-2015</th>
<th>2016 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable to parent and accrued interest (4)</td>
<td>(954)</td>
<td>(954)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HII debt incurred in connection with spin-off</td>
<td>1,775</td>
<td>29</td>
<td>86</td>
<td>460</td>
<td>1,200</td>
</tr>
<tr>
<td>Interest payments on HII debt (5)</td>
<td>797</td>
<td>103</td>
<td>203</td>
<td>195</td>
<td>296</td>
</tr>
<tr>
<td>Total contractual obligations with pro forma adjustments</td>
<td>$5,478</td>
<td>$1,282</td>
<td>$1,200</td>
<td>$967</td>
<td>$2,029</td>
</tr>
</tbody>
</table>

(1) The notes payable to parent and accrued interest are presented as due in 2011 because such notes are due on demand by our parent.

(2) A “purchase obligation” is defined as an agreement to purchase goods or services that is enforceable and legally binding on us and that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. These amounts are primarily comprised of open purchase order commitments to vendors and subcontractors pertaining to funded contracts.

(3) Other long-term liabilities primarily consist of total accrued workers’ compensation reserves, deferred compensation, and other miscellaneous liabilities, of which $197 million is the current portion of workers’ compensation liabilities. It excludes obligations for uncertain tax positions of $17 million, as the timing of the payments, if any, cannot be reasonably estimated.

(4) In connection with the recapitalization resulting from the spin-off transaction, the amount of Northrop Grumman’s investment in HII, including intercompany debt and accrued interest thereon, net of the Contribution, will be contributed to additional paid-in capital.
Interest expense includes interest on $575 million of variable interest rate debt calculated based on interest rates at December 31, 2010.

Further details regarding long-term debt and operating leases can be found in “Notes to Consolidated Financial Statements—Notes 11 and 14.”

Off-Balance Sheet Arrangements

As of December 31, 2010, we had no significant off-balance sheet arrangements other than the surety bonds and letters of credit discussed in “Other Sources and Uses of Capital” above and operating leases. For a description of our operating leases, see “Notes to Consolidated Financial Statements—Notes 2 and 14.”

Quantitative and Qualitative Disclosures about Market Risk

Interest Rates—At December 31, 2010, we do not consider the market risk exposure relating to interest rates to be material to the consolidated financial statements. Substantially all outstanding borrowings were fixed-rate long-term debt obligations. See “Notes to Consolidated Financial Statements—Note 11.”

Foreign Currency—We may enter into foreign currency forward contracts to manage foreign currency exchange rate risk related to payments to suppliers denominated in foreign currencies. At December 31, 2010, the amount of foreign currency forward contracts outstanding was not material.

Critical Accounting Policies, Estimates and Judgments

Our consolidated financial statements are prepared in accordance with GAAP, which require management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Management considers an accounting policy to be critical if it is important to our financial condition and results of operations, and if it requires significant judgment and estimates on the part of management in its application. The development and selection of these critical accounting policies have been determined by our management. Due to the significant judgment involved in selecting certain of the assumptions used in these areas, it is possible that different parties could choose different assumptions and reach different conclusions. We consider the policies relating to the following matters to be critical accounting policies:

- Revenue recognition
- Purchase accounting and goodwill
- Litigation, commitments and contingencies
- Retirement benefits
- Workers’ compensation

Revenue Recognition

Overview—We derive the majority of our business from long-term contracts for the production of goods and services provided to the federal government, which are accounted for in conformity with GAAP, for construction-type and production-type contracts and federal government contractors. We classify contract revenues as product sales or service revenues depending on the predominant attributes of the relevant underlying contracts. We consider the nature of these contracts and the types of products and services provided when determining the proper accounting method for a particular contract.

Percentage-of-Completion Accounting—We generally recognize revenues from our long-term contracts under the cost-to-cost measure of the percentage-of-completion method of accounting. The percentage-of-completion method recognizes income as work on a contract progresses. For most contracts, sales are calculated based on the percentage of total costs incurred in relation to total estimated costs at completion of the contract. For certain contracts with large up-front purchases of material, sales are generally calculated based on the percentage that direct labor costs incurred bear to total estimated direct labor costs.
The use of the percentage-of-completion method depends on our ability to make reasonably dependable cost estimates for the design, manufacture, and delivery of our products and services. Such costs are typically incurred over a period of several years, and estimation of these costs requires the use of judgment. We record sales under cost-type contracts as costs are incurred.

Many contracts contain positive and negative profit incentives based upon performance relative to predetermined targets that may occur during or subsequent to delivery of the product. These incentives take the form of potential additional fees to be earned or penalties to be incurred. Incentives and award fees that can be reasonably assured and reasonably estimated are recorded over the performance period of the contract. Incentives and award fees that are not reasonably assured or cannot be reasonably estimated are recorded when awarded or at such time as a reasonable estimate can be made.

Changes in estimates of contract sales, costs and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. A significant change in an estimate on one or more contracts could have a material effect on our consolidated financial position or results of operations for that period.

Cost Estimation—The cost estimation process requires significant judgment and is based upon the professional knowledge and experience of our engineers, program managers, and financial professionals. Factors that are considered in estimating the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, and the recoverability of any claims included in the estimates to complete. A significant change in an estimate on one or more contracts could have a material effect on our consolidated financial position or results of operations, and where such changes occur, separate disclosure is made of the nature, underlying conditions and financial impact from the change. We update our contract cost estimates at least annually and more frequently as determined by events or circumstances. We review and assess our cost and revenue estimates for each significant contract on a quarterly basis.

We record a provision for the entire loss on a contract in the period the loss is determined when estimates of total costs to be incurred on the contract exceed estimates of total revenue to be earned. We offset loss provisions first against costs that are included in unbilled accounts receivable or inventoried assets, with any remaining amount reflected in other current liabilities.

Purchase Accounting and Goodwill

Overview—We allocate the purchase price of an acquired business to the underlying tangible and intangible assets acquired and liabilities assumed based upon their respective fair market values, with the excess recorded as goodwill. Such fair market value assessments require judgments and estimates that can be affected by contract performance and other factors over time, which may cause final amounts to differ materially from original estimates. For acquisitions completed through December 31, 2008, we recorded adjustments to fair value assessments to goodwill over the purchase price allocation period (typically not exceeding twelve months), and adjusted goodwill for the resolution of income tax uncertainties which extended beyond the purchase price allocation period.

In 2009, we implemented new GAAP accounting guidance related to business combinations that impacts how we record adjustments to fair values included in the purchase price allocation and the resolution of income tax uncertainties. For acquisitions completed after January 1, 2009, any adjustments to the fair value of purchased assets and subsequent resolution of uncertain tax positions are recognized in net earnings, rather than as adjustments to goodwill. We have had no acquisitions since the new business combination GAAP requirements became effective.

Tests for Impairment—We perform impairment tests for goodwill as of November 30 each year, or when evidence of potential impairment exists. We record a charge to operations when we determine that an impairment
has occurred. In order to test for potential impairment, we use a discounted cash flow analysis, corroborated by comparative market multiples where appropriate.

The principal factors used in the discounted cash flow analysis requiring judgment are the projected results of operations, discount rate and terminal value assumptions. The discount rate represents the expected cost of new capital. The terminal value assumptions are applied to the final year of the discounted cash flow model.

As a result of the announcement to wind down operations at the Avondale, Louisiana facility and the Gulf Coast segment’s recent operating losses, we performed an impairment test for each reportable segment’s goodwill. The results of our goodwill impairment tests as of June 30, 2010 and November 30, 2010 indicated that the estimated fair value of each of our reporting units was substantially in excess of its carrying value. See “Notes to Consolidated Financial Statements—Note 4.”

**Litigation, Commitments and Contingencies**

*Overview*—We are subject to a range of claims, lawsuits, environmental and income tax matters, and administrative proceedings that arise in the ordinary course of business. Estimating liabilities and costs associated with these matters requires judgment and assessment based upon professional knowledge and experience of management and our internal and external legal counsel. In accordance with our practices relating to accounting for contingencies, we record amounts as charges to earnings after taking into consideration the facts and circumstances of each matter, including any settlement offers, and determine that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any such exposure to us may vary from earlier estimates as further facts and circumstances become known.

*Environmental Accruals*—We are subject to the environmental laws and regulations of the jurisdictions in which we conduct operations. We record a liability for the costs of expected environmental remediation obligations when we determine that it is probable we will incur such costs, and the amount of the liability can be reasonably estimated. When a range of costs is possible and no amount within that range is a better estimate than another, we record the minimum amount of the range.

Factors which could result in changes to the assessment of probability, range of estimated costs and environmental accruals include: modification of planned remedial actions, increase or decrease in the estimated time required to remediate, discovery of more extensive contamination than anticipated, results of efforts to involve other legally responsible parties, financial insolvency of other responsible parties, changes in laws and regulations or contractual obligations affecting remediation requirements and improvements in remediation technology. Although we cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, we do not anticipate that future remediation expenditures will have a material adverse effect on our financial position, results of operations or cash flows.

*Asset Retirement Obligations*—We record all known asset retirement obligations for which the liability’s fair value can be reasonably estimated, including certain asbestos removal, asset decommissioning and contractual lease restoration obligations. Recorded amounts as of December 31, 2010 are $20 million and consist primarily of obligations associated with the wind down of operations at our Avondale facility (see “Notes to Consolidated Financial Statements—Note 4.”). Amounts as of December 31, 2009 were not material.

We also have known conditional asset retirement obligations related to assets currently in use, such as certain asbestos remediation and asset decommissioning activities to be performed in the future, that are not reasonably estimable as of December 31, 2010, due to insufficient information about the timing and method of settlement of the obligation. Accordingly, the fair value of these obligations has not been recorded in the consolidated financial statements. Environmental remediation and/or asset decommissioning of these facilities may be required when we cease to utilize these facilities. In addition, there may be conditional environmental asset retirement obligations that we have not yet discovered (e.g., asbestos may exist in certain buildings which we have not become aware of through its normal business operations), and therefore, these obligations also have not been included in the consolidated financial statements.

*Litigation Accruals*—Litigation accruals are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it
is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The ultimate resolution of any exposure to us may vary from earlier estimates as further facts and circumstances become known. Based upon the information available, we believe that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**Uncertain Tax Positions**—Uncertain tax positions meeting the more-likely-than-not recognition threshold are recognized in the financial statements. If a tax position does not meet the minimum statutory threshold to avoid payment of penalties, we recognize an expense for the amount of the penalty in the period the tax position is claimed in our tax return. We recognize interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are recognized as a component of income tax expense. The timing and amount of accrued interest is determined by the applicable tax law associated with an underpayment of income taxes. See “Notes to Consolidated Financial Statements—Note 10.” Under existing GAAP, prior to January 1, 2009, changes in accruals associated with uncertainties arising from the resolution of pre-acquisition contingencies of acquired businesses were charged or credited to goodwill; effective January 1, 2009, such changes are now recorded to income tax expense. Adjustments to other tax accruals are generally recorded in earnings in the period they are determined.

**Retirement Benefits**

**Overview**—We annually evaluate assumptions used in determining projected benefit obligations and the fair values of plan assets for our pension plans and other post-retirement benefits plans in consultation with our outside actuaries. In the event that we determine that plan amendments or changes in the assumptions are warranted, future pension and post-retirement benefit expenses could increase or decrease.

**Assumptions**—The principal assumptions that have a significant effect on our consolidated financial position and results of operations are the discount rate, the expected long-term rate of return on plan assets, the health care cost trend rate and the estimated fair market value of plan assets. For certain plan assets where the fair market value is not readily determinable, such as real estate, private equity, and hedge funds, estimates of fair value are determined using the best information available.

**Discount Rate**—The discount rate represents the interest rate that is used to determine the present value of future cash flows currently expected to be required to settle the pension and post-retirement benefit obligations. The discount rate is generally based on the yield of high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined using the results of bond yield curve models based on a portfolio of high quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan. Taking into consideration the factors noted above, our weighted-average pension composite discount rate was 5.84% at December 31, 2010 and 6.04% at December 31, 2009. Holding all other assumptions constant, and since net actuarial gains and losses were in excess of the 10% accounting corridor in 2010, an increase or decrease of 25 basis points in the discount rate assumption for 2010 would have decreased or increased pension and post-retirement benefit expense for 2010 by approximately $13 million, of which $2 million relates to post-retirement benefits, and decreased or increased the amount of the benefit obligation recorded at December 31, 2010, by approximately $140 million, of which $20 million relates to post-retirement benefits. The effects of hypothetical changes in the discount rate for a single year may not be representative and may be asymmetrical or nonlinear for future years because of the application of the accounting corridor. The accounting corridor is a defined range within which amortization of net gains and losses is not required. Due to adverse capital market conditions in 2008 our pension plan assets experienced a negative return of approximately 16% in 2008. As a result, substantially all of our plans experienced net actuarial losses outside the 10% accounting corridor at the end of 2008, thus requiring accumulated gains and losses to be amortized to expense. As a result of this condition, sensitivity of net periodic pension costs to changes in the discount rate was much higher in 2009 and 2010 than was the case in 2008 and prior. This condition is expected to continue into the near future.

**Expected Long-Term Rate of Return**—The expected long-term rate of return on plan assets represents the average rate of earnings expected on the funds invested in a specified target asset allocation to provide for anticipated future benefit payment obligations. For 2010 and 2009, we assumed an expected long-term rate of return
on plan assets of 8.5%. An increase or decrease of 25 basis points in the expected long-term rate of return assumption for 2010, holding all other assumptions constant, would increase or decrease our pension and post-retirement benefit expense for 2010 by approximately $8 million.

*Health Care Cost Trend Rates*—The health care cost trend rates represent the annual rates of change in the cost of health care benefits based on external estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the plan participants. Using a combination of market expectations and economic projections including the effect of health care reform, we selected an expected initial health care cost trend rate of 8.0% and an ultimate health care cost trend rate of 5.0% reached in 2017. In 2009, we assumed an expected initial health care cost trend rate of 7.0% for 2010 and an ultimate health care cost trend rate of 5.0% reached in 2014. Although our actual cost experience is much lower at this time, market conditions and the potential effects of health care reform are expected to increase medical cost trends in the next one to three years thus our past experience may not reflect future conditions.

Differences in the initial through the ultimate health care cost trend rates within the range indicated below would have had the following impact on 2010 post-retirement benefit results:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>1-Percentage Point Increase</th>
<th>1-Percentage Point Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (Decrease) From Change in Health Care Cost Trend Rates To:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-retirement benefit expense</td>
<td>$2</td>
<td>$(2)</td>
</tr>
<tr>
<td>Post-retirement benefit liability</td>
<td>18</td>
<td>(18)</td>
</tr>
</tbody>
</table>

**Workers’ Compensation**

Our operations are subject to federal and state workers’ compensation laws. We maintain self-insured workers’ compensation plans, in addition to participating in federal administered second injury workers’ compensation funds. We estimate the required liability for such claims and state funding requirements on a discounted basis utilizing actuarial methods based on various assumptions, which include, but are not limited to, our historical loss experience and projected loss development factors as compiled in an annual actuarial study. Related self-insurance accruals include amounts related to the liability for reported claims and an estimated accrual for claims incurred but not reported. Our workers’ compensation liability is discounted at 3.31% and 3.47% at December 31, 2010 and 2009, respectively, based on future payment streams and a risk-free rate. Workers’ compensation benefit obligation on an undiscounted basis is $726 million and $686 million as of December 31, 2010 and 2009, respectively.

**Accounting Standard Updates**

Accounting Standards Updates not effective until after December 31, 2010 are not expected to have a significant effect on our consolidated financial position, results of operations or cash flows.

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BUSINESS

Our Company

For more than a century, we have been designing, building, overhauling and repairing ships primarily for the U.S. Navy and the U.S. Coast Guard. We are the nation’s sole industrial designer, builder and refueler of nuclear-powered aircraft carriers, the sole supplier and builder of amphibious assault and expeditionary warfare ships to the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies currently designing and building nuclear-powered submarines for the U.S. Navy and one of only two companies that builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers. We build more ships, in more ship types and classes, than any other U.S. naval shipbuilder. We are also a full-service systems provider for the design, engineering, construction and life cycle support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. With our product capabilities, heavy industrial facilities and a workforce of approximately 39,000 shipbuilders, we believe we are poised to continue to support the long-term objectives of the U.S. Navy to adapt and respond to a complex, uncertain and rapidly changing national security environment.

Our primary areas of business include the design, construction, repair and maintenance of nuclear-powered ships, such as aircraft carriers and submarines, and non-nuclear ships, such as surface combatants, expeditionary warfare/amphibious assault and coastal defense surface ships, as well as the overhaul and refueling of nuclear-powered ships.

The credit quality of our primary customer (the U.S. Government), the long life cycle of our products, our significant contracted backlog, our manufacturing capabilities at our heavy industrial facilities and the alignment of our products to the 30-Year Plan assist us in forecasting our near- and long-term business plans that we believe provide us with a measure of financial stability and predictability.

Our three major shipyards are currently located in Newport News, Virginia, Pascagoula, Mississippi and Avondale, Louisiana.

We manage our business in two segments: Newport News, which includes all of our nuclear ship design, construction, overhaul and refueling businesses, and Gulf Coast, which includes our non-nuclear ship design, construction, repair and maintenance businesses.

Newport News

Through our Newport News shipyard, we are the sole supplier of nuclear-powered aircraft carriers to the U.S. Navy. We delivered the last of the ten-ship CVN-68 Nimitz-class, CVN-77 USS George H.W. Bush, on May 11, 2009. In 2008, we were awarded a $5.1 billion contract for the detail design and construction of the first ship of the CVN-78 Gerald R. Ford-class, the next generation of nuclear-powered aircraft carriers, which is scheduled for delivery in 2015. In 2009, we were also awarded construction preparation contracts totaling $451 million for the second CVN-78 Gerald R. Ford-class aircraft carrier, CVN-79 (unnamed). The duration of this initial CVN-79 award is two years plus a one-year option. The 30-Year Plan includes the award of a new aircraft carrier construction contract every five years.

Through a teaming agreement with Electric Boat that provides for approximate equality of work allocated between the parties, we provide SSN-774 Virginia-class nuclear fast attack submarines. Under the teaming agreement, Electric Boat is the prime contractor to whom construction contracts have been awarded in blocks, and we are principal subcontractor. Block I was awarded in 1998 and consisted of four submarines, Block II was awarded in 2003 and consisted of six submarines, and Block III was awarded in 2008 and consisted of eight submarines. We and Electric Boat have delivered the first seven submarines of the class (all four submarines from Block I and three submarines from Block II), have another five submarines under construction (the remaining three submarines of Block II and the first two submarines of Block III) and have been contracted to deliver an additional six submarines (the remaining six submarines of Block III). Based on expected build rates, the last Block III SSN-774 Virginia-class submarine is scheduled for delivery in 2018. We are also investing in our facilities to support the increase in production rate from one to two SSN-774 Virginia-class submarines per year beginning in
2011. Additionally, we have begun working with Electric Boat on the initial design phase for the SSBN(X) Ohio-class Submarine Replacement Program. We also have a submarine engineering department that provides planning yard services to the U.S. Navy for its other two classes of nuclear-powered submarines, the Los Angeles-class and the Seawolf-class.

We are the exclusive provider of RCOH services for nuclear-powered aircraft carriers and a provider of fleet maintenance services to the U.S. Navy. In 2009, we were awarded a contract for up to $2.4 billion for the RCOH of CVN-71 USS Theodore Roosevelt, which is scheduled for redelivery to the U.S. Navy in 2013. In 2010, we were also awarded a three-year $678 million planning contract (an initial award of $79 million with two one-year options) for the RCOH of CVN-72 USS Abraham Lincoln. In 2011, the first option was exercised for $207 million. RCOH execution contracts are awarded approximately every four years. Additionally, we are currently building a facility at our Newport News shipyard for the inactivation of nuclear-powered aircraft carriers, the contract for the first of which, CVN-65 USS Enterprise, is expected to be awarded in 2013.

We leverage our nuclear capabilities in non-shipbuilding programs as well. For example, we are working with our joint venture partner, AREVA NP, to prepare for the manufacture of heavy components to support civilian nuclear power plant construction work. We are also working with several other joint venture partners for the DoE on environmental management and operations projects at the Savannah River Site near Aiken, South Carolina, and potentially at the Idaho National Laboratory, near Idaho Falls, Idaho. We believe these programs allow us to utilize our nuclear expertise to take advantage of opportunities to provide niche services in our areas of core competencies.
The table below sets forth the primary product lines in our Newport News segment:

<table>
<thead>
<tr>
<th>Newport News Programs</th>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrier New Construction CVN-78</td>
<td>• New aircraft carrier for the 21st century&lt;br&gt;• Increased warfighting capabilities&lt;br&gt;• New propulsion plant&lt;br&gt;• Reduced ship manning&lt;br&gt;• Focused on operating cost reduction&lt;br&gt;• Designed for modular construction</td>
<td>• Cost plus incentive fee&lt;br&gt;• Exclusiver provider&lt;br&gt;• Incentivized capital investment under the planning contract&lt;br&gt;• 8-year design, 7.5-year construction</td>
<td>• New construction contract expected to be awarded approximately every 5 years</td>
</tr>
<tr>
<td></td>
<td>Carrier RCOH</td>
<td>• Complex overhaul of the ship’s machinery and equipment&lt;br&gt;• Refueling of both of the ship’s reactors&lt;br&gt;• Significant renovation and modernization work</td>
<td>• Cost plus incentive fee&lt;br&gt;• Exclusiver provider&lt;br&gt;• 3-year advanced planning&lt;br&gt;   • Approximately 3.5-year overhaul execution</td>
<td>• RCOH Execution contracts expected to be awarded approximately every 4 years</td>
</tr>
<tr>
<td></td>
<td>Submarine New Construction SSN-774</td>
<td>• Post-Cold War design focused on maneuverability, stealth, warfighting capability and affordability&lt;br&gt;• Designed for modular construction&lt;br&gt;• Constructed under a teaming agreement with Electric Boat&lt;br&gt;• Planning yard services for Los Angeles-class and Seawolf-class</td>
<td>• Fixed price incentive&lt;br&gt;• Exclusiver provider through joint production arrangement&lt;br&gt;• Incentivized capital investment&lt;br&gt;• Multi-ship buys&lt;br&gt;• 5-year construction</td>
<td>• Rate increasing from 1 to 2 annually in 2011&lt;br&gt;• 7 delivered, 11 additional in program backlog&lt;br&gt;• Block IV expected to include 9 submarines with anticipated award at the end of 2013</td>
</tr>
</tbody>
</table>
The table below sets forth the potential future programs in our Newport News segment:

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft Carrier Inactivation</td>
<td>• CVN-65 inactivation expected to begin in 2013</td>
</tr>
<tr>
<td></td>
<td>• End-of-life nuclear reactor defueling</td>
</tr>
<tr>
<td></td>
<td>• Inactivation of ship systems, equipment and machinery</td>
</tr>
<tr>
<td></td>
<td>• 4-year execution</td>
</tr>
<tr>
<td></td>
<td>• Contracts for <em>Nimitz</em>-class carriers expected to be awarded</td>
</tr>
<tr>
<td></td>
<td>approximately every 4 years beginning in 2023</td>
</tr>
<tr>
<td>Ohio-class Replacement Program</td>
<td>• Anticipated to begin in 2019</td>
</tr>
<tr>
<td></td>
<td>• 30-Year Plan includes 12 SSBN(X) submarines</td>
</tr>
<tr>
<td></td>
<td>• NGSB currently acting as subcontractor in design of SSBN(X)</td>
</tr>
<tr>
<td>Energy</td>
<td>• AREVA Newport News: Manufacturing heavy reactor components</td>
</tr>
<tr>
<td></td>
<td>• DoE: Site management and operations</td>
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<td></td>
<td>• Newport News Industrial</td>
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**Gulf Coast**

Our Gulf Coast shipyards design and construct surface combatant and amphibious assault/expeditionary warfare ships for the U.S. Navy and coastal defense surface ships for the U.S. Coast Guard. We are the sole supplier and builder of amphibious assault/expeditionary warfare ships (LHA, LHD and LPD) to the U.S. Navy. We are currently constructing four LPD-17 *San Antonio*-class amphibious transport dock ships: LPD-22 *San Diego* (scheduled for delivery in 2011) and LPD-24 *Arlington* (scheduled for delivery in 2012) in our Pascagoula, Mississippi shipyard, and LPD-23 *Anchorage* (scheduled for delivery in 2012) and LPD-25 *Somerset* (scheduled for delivery in 2013) in our Avondale shipyard. Long-lead procurement is currently underway for LPD-26 and LPD-27. As we complete work on LPD-23 *Anchorage* and LPD-25 *Somerset*, we intend to wind down our construction activities at Avondale, our Louisiana shipyard, and two Louisiana components facilities and consolidate all Gulf Coast construction into our Mississippi facilities. We believe that consolidation in Pascagoula would allow us to realize the benefits of serial production, reduce program costs on existing contracts and make future vessels more affordable, thereby reducing overhead rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.

In 2009, construction of the LHD-1 *Wasp*-class amphibious assault ships was concluded with the delivery of LHD-8 USS *Makin Island*, and the first ship of the follow-on class of large-deck amphibious assault ships, LHA-6 *America*, is currently under construction and we expect to deliver it in 2013. Long-lead procurement is currently underway for LHA-7.

We are one of only two companies that build the U.S. Navy’s current fleet of DDG-51 *Arleigh Burke*-class destroyers, a program for which the U.S. Navy recently decided to restart production. We delivered DDG-107 USS...
Gravely to the U.S. Navy in July 2010 and DDG-110 William P. Lawrence in February 2011. Long-lead procurement is currently underway for DDG-113 and DDG-114.

We are also constructing the composite superstructure of DDG-1000 Zumwalt and DDG-1001 Michael Monsoor.

For the U.S. Coast Guard, we are currently constructing NSC-3 Stratton (scheduled for delivery in 2011) for the National Security Cutter program, providing advanced and operationally efficient deepwater capabilities for the U.S. Coast Guard. The construction contract for NSC-4 Hamilton was awarded in November 2010. Long-lead procurement is currently underway for NSC-5.

Additionally, we provide fleet maintenance and modernization services to the U.S. Navy and U.S. Coast Guard fleets. On any given day, over 600 employees of our wholly owned subsidiary AMSEC are on board U.S. Navy ships, assessing equipment conditions, modernizing systems and training sailors. Through our wholly owned subsidiary, CMSD, a Master Ship Repair Contractor, we provide ship repair, regular overhaul and selected restricted availability services (pierside or in customer’s drydocks) for the U.S. Navy. We also perform emergent repair for the U.S. Navy on all classes of ships.

In 2009, our Gulf Coast shipyards began implementation of a new management approach, the Gulf Coast Operating System, focused on better organizing and managing the construction of the ships we build. Through the Gulf Coast Operating System, we believe program managers will be better able to confirm that a ship is adhering to our newly developed standardized performance metrics, and to assure that we are providing high quality products in a safe, timely and cost-effective manner.

The table below sets forth the primary product lines in our Gulf Coast segment:

<table>
<thead>
<tr>
<th>Gulf Coast Programs</th>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
</table>
| DDG-51 Arleigh Burke-class Destroyer | • Most advanced surface combatant in the fleet  
• 62-Ship Program/28 awarded to us | • Fixed price incentive  
• 4-year construction | • 32 additional DDG-51s/Large Surface Combatants expected for procurement by 2031  
• Long lead time and material contract awarded for DDG-113 and DDG-114 | |
| LPD-17 San Antonio-class Amphibious Transport Dock Ship | • Transport and land 700 to 800 Marines, their equipment and supplies  
• Supports amphibious assault, special operations | • Fixed price incentive  
• 4.5-year construction | • 5 delivered (LPD 17—21), 4 under construction (LPD 22—25)  
• Long lead time and material contract awarded for LPD-26 and LPD-27 | |
The table below sets forth a potential future program in our Gulf Coast segment:

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>LSD(X) Amphibious Dock Landing Ship</td>
<td>Expected to begin in 2017</td>
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<tr>
<td></td>
<td>30-Year Plan calls for 12 LSD(X) ships (one every other year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4-year construction</td>
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History

Prior to its purchase by Northrop Grumman in 2001, the Newport News shipyard was the largest independent shipyard in the United States. Newport News was built in 1886 to repair ships servicing coal and train facilities in Hampton Roads, Virginia. By 1897, Newport News had built its first three boats for the U.S. Navy. In 1968 Newport News merged with the Tenneco Corporation, and in 1996 was spun-off to form its own corporation, Newport News Shipbuilding.

In January 2008, Northrop Grumman Ship Systems was realigned with Newport News into a single operating segment called Northrop Grumman Shipbuilding.

Huntington Ingalls Industries, Inc. was incorporated in Delaware on August 4, 2010. Our corporate headquarters are located in Newport News, Virginia.

Defense Industry Overview

The United States faces a complex, uncertain and rapidly changing national security environment. The defense of the United States and its allies requires the ability to respond to constantly evolving threats, terrorist acts, regional conflicts and cyber attacks, responses to which are increasingly dependent on early threat identification. National responses to such threats can require unilateral or cooperative initiatives ranging from dissuasion, deterrence, active defense, security and stability operations, or peacekeeping. We believe that the U.S. Government will continue to place a high priority on the protection of its engaged forces and citizenry and on minimizing collateral damage when force must be applied in pursuit of national objectives.

The United States’ engagement in combating terrorism around the world, coupled with the need to modernize U.S. military forces, has driven DoD funding levels since 2001. In February 2010, the DoD released its QDR, a legislatively mandated review of military strategy and priorities that shapes defense funding over the ensuing four years. The QDR emphasized four key strategic priorities: prevailing in today’s wars, preventing and deterring conflict, preparing to defeat adversaries in a wide range of contingencies, and preserving and enhancing the All-Volunteer Force. These priorities combined with supporting key joint mission requirements helped shape the U.S. Navy’s 30-Year Plan.

We expect that the nation’s engagement in a multi-front, multi-decade struggle will require an affordable balance between investments in current missions and investments in new capabilities to meet future challenges. The DoD faces the additional challenge of recapitalizing equipment and rebuilding readiness at a time when the DoD is pursuing modernization of its capabilities as well as reducing overhead and inefficiencies. The DoD has made a commitment to use resources more effectively and efficiently to support and sustain the warfighter, and the DoD expects the annual defense budget to grow by a nominal one percent, after inflation, in the coming years. The fiscal year 2011 budget submitted by the President and currently under deliberation in Congress requests $548.9 billion in discretionary authority for the DoD base budget, representing a modest increase over the 2010 budget.

The Pentagon’s five-year spending plan, also submitted to Congress in February 2010, reflects the slow, steady growth requirements set forth in the QDR. Through 2015, the base defense budget is expected to grow at low single-digit rates. Investment spending is also projected to display low-single-digit inflation-adjusted growth, with procurement funding for maturing programs growing and research and development funding for new programs declining over the period.

In February 2010, the U.S. Navy released its 30-Year Plan, in which the U.S. Navy used the goals and strategies set forth in the QDR to identify the naval capabilities projected to meet the defense challenges faced by the nation in the next three decades. The 30-Year Plan uses, as a baseline, a 313-ship force that was first proposed by the U.S. Navy to Congress in 2006 to design a battle inventory to provide global reach; persistent presence; and strategic, operational and tactical effects expected of naval forces within reasonable levels of funding. The Chief of Naval Operations has stated that the 313-ship fleet is a “floor.” Major elements of the 30-Year Plan include:

• Shifting the procurement of nuclear-powered aircraft carriers to five-year procurement centers, which will result in a steady-state aircraft carrier force of 11 CVNs throughout the 30 years;
• Truncating the DDG-1000 Zumwalt-class destroyer program, restarting production of DDG-51 Arleigh Burke-class destroyers and continuing the Advanced Missile Defense Radar (“AMDR”) development efforts;
• Shifting to a single sea frame for the Littoral Combat Ship (“LCS”) and splitting its production between two shipyards in an effort to reduce the ship’s overall cost;
• Maintaining an adaptable amphibious landing force of approximately 33 ships;
Transitioning to a Combat Logistics force composed of just two types of ships and expanding the size of the Joint High Speed Vessel Fleet;

Defining U.S. Navy requirements for 48 fast attack submarines and four guided missile submarines to sustain strike capacity and a robust capability to covertly deploy special operations force personnel. Procurement of Virginia-class submarines will increase to two boats per year starting in 2011 and slow to one boat per year once full rate production of the SSBN(X) Ohio-class Submarine Replacement Program begins; and

Projecting procurement of 276 ships over the next 30 years (198 combat ships and 78 logistics and support ships).

The QDR has directed certain specific enhancements to U.S. forces and capabilities and a number of these enhancements present NGSB with substantial new competitive opportunities including:

- Exploitation of advantages in subsurface operations;
- U.S. Air Force and U.S. Navy joint development of air-sea battle concepts to integrate air and naval force capabilities across all operational domains;
- Increased ballistic missile defense capabilities;
- Expanded future long-range strike capabilities;
- Expanded capacity of Virginia-class fast attack nuclear submarines for long-range strike; and

The shipbuilding defense industry, as characterized by its competitors, customers, suppliers, potential entrants and substitutes, is unique in many ways. It is highly capital- and skilled labor-intensive. There are two major participants: us and General Dynamics, which together represent over 90% of the market and employ over 60,000 shipbuilders. The U.S. Navy, a large single customer with many needs and requirements, dominates the industry’s customer base and is served by a supplier base where competition is giving way to exclusive providers. However, there are smaller shipyards entering the market to build the U.S. Navy’s new LCS. The U.S. Navy must compete with other national priorities, including other defense activities and entitlement programs, for a share of federal budget dollars.

The DoD recently announced various initiatives designed to gain efficiencies, refocus priorities and enhance business practices used by the DoD, including those used to procure goods and services from defense contractors. The most recent initiatives are organized in five major areas: Affordability and Cost Growth; Productivity and Innovation; Competition; Services Acquisition; and Processes and Bureaucracy. These initiatives are still fairly new and the specific impacts on our industry will be understood better as the DoD implements them further. See “Risk Factors—The Department of Defense has announced plans for significant changes to its business practices that could have a material effect on its overall procurement process and adversely impact our current programs and potential new awards.”

**Competitive Strengths**

We believe that we have the following key competitive strengths:

*We are one of the two largest publicly owned shipbuilders in the United States.* We and our primary competitor are the builders of 232 of the U.S. Navy’s current 286 ships, and the exclusive builders of 16 of the U.S. Navy’s 29 classes of ship (seven classes for which we are the exclusive builder, and four classes for which we are co-builders with our primary competitor). We build more ships, in more types and classes, than any other U.S. naval shipbuilder and we are the exclusive builder of 33 of the U.S. Navy’s 286 ships, representing seven of the U.S. Navy’s 29 classes of ships. We are the sole builder and refueler of nuclear-powered aircraft carriers, the sole supplier of amphibious assault and expeditionary warfare ships for the U.S. Navy, and the sole provider of the National Security Cutter to the U.S. Coast Guard. We are also teamed with Electric Boat as the sole builders of nuclear-powered submarines for the U.S. Navy. We are also a full-service systems provider for the design, engineering, construction and life cycle
support of major programs for surface ships and a provider of fleet support and maintenance services for the U.S. Navy. We are one of only two nuclear shipbuilders and the only company capable of constructing and refueling aircraft carriers.

We have long-term contracts with visible revenue streams and highly probable backlog based on the U.S. Navy's 30-Year Plan. Most of our contracts are long-term in nature with visible revenue streams. Total backlog at December 31, 2010 was approximately $17 billion. At the end of 2010, total orders from the U.S. Government comprised substantially all of the total backlog. In connection with ships that we have constructed, we expect to continue our regular service and support, including RCOH of aircraft carriers and inactivation of aging nuclear aircraft carriers. For ships that may be built in the future, we intend to continue to pursue and obtain planning and design contracts with the U.S. Government. Thus, we believe we have a highly probable backlog associated with every stage of the life cycle for the ships we build. We believe these factors allow us to assess our financial performance for many years into the future, which contributes to our long-term stability.

We generate a significant amount of our revenue from contracts for classes of ships for which we are the exclusive provider. We are the exclusive provider of seven of the U.S. Navy’s 29 classes of ships, and a significant amount of our revenue is from contracts for these classes of ships. Collectively, our contracts for ship classes for which we are the exclusive provider accounted for 64% and 68% of our revenues in 2009 and 2010, respectively.

We are capable of manufacturing multiple classes of ships at our heavy industrial facilities. Our Newport News and Pascagoula shipyards possess heavy industrial assets and are capable of manufacturing multiple ship types and classes. The Newport News shipyard, which is able to simultaneously construct in staggered phases two nuclear aircraft carriers and five nuclear submarines, provide refueling and overhaul services for up to two additional aircraft carriers, and provide maintenance and repair services for additional ships, has an 18-acre all weather onsite steel fabrication workshop, a modular outfitting facility for assembly of a ship’s basic structural modules indoors and on land, machine shops totaling approximately 300,000 square feet, a 1,050-ton gantry crane capable of servicing two aircraft carriers at one time, and a 2,170 foot long drydock. Our Pascagoula shipyard, which is able to simultaneously build several classes of ships for both the U.S. Navy and the U.S. Coast Guard, includes a 50,000-ton floating dry dock, 660-ton gantry crane, a steel fabrication shop with capacity to process 150 tons of steel per day, covered outfitting and stacking halls capable of handling three-deck height grand blocks, and a propulsion assembly building that can hold up to fifteen 30,000 horsepower engines simultaneously. Our Gulfport, Mississippi facility is focused on composite research and engineering and is a 322,000-square foot manufacturing facility capable of building large scale carbon fiber and e-glass composite structures such as mast, deckhouse and hangar structures. Additionally, we have the Virginia Advanced Shipbuilding Carrier Integration Center (“VASCIC”) in Newport News, two Land Based Test Facilities, one in Newport News and one in Pascagoula, and the Center of Excellence for Modeling and Simulation (including the Aviation Simulation Integration Center and the Flexible Infrastructure Laboratory), which is housed at VASCIC.

We have an experienced management team. Our senior management team has experience in the management of defense and shipbuilding companies and in the areas of project management, supply chain management and technology management. Emphasis is placed on developing and aligning a dynamic leadership team to engage the workforce and drive high performance. Additionally, through our Enhancing Personal Leadership program, we leverage the experience and talent of our current management team to train our new and upcoming leaders to add to the overall depth and skill level of our management.

We have a workforce of approximately 39,000 shipbuilders. Our workforce includes individuals specializing in 19 crafts and trades, including more than 7,500 engineers and designers and more than 1,000 employees with advanced degrees. Additionally, our workforce is composed of many third-, fourth- and fifth-generation shipbuilding employees. At December 31, 2010, we had 771 Master Shipbuilders, employees who have been with us or our predecessors for over 40 years. We operate two Apprentice Schools: one in Newport News, which trains over 750 apprentices each year in 19 trades and several advanced programs, and one in the Gulf Coast, which currently has nearly 1,000 registered apprentices in its programs. We also provide ongoing training for all of our employees, providing over 60,000 individual training seats in 2009 and 64,000 in 2010 across our Newport News and Gulf Coast operations.
Our Strategy

Our objectives are to maintain our leadership position in the U.S. naval shipbuilding industry and to deliver long-term value to our stockholders. To achieve these objectives, we utilize the following strategies:

Strengthen and protect market position.

Align our business to support the U.S. Navy’s 30-Year Plan. To ensure that we remain the U.S. Navy’s builder of choice on ships we currently build, we intend to continue to align ourselves with the U.S. Navy to support its 30-Year Plan. We intend to continue to support the U.S. Navy in the design and construction of new ships, including the construction of an aircraft carrier and an amphibious assault ship approximately every five years, the restart of construction of DDG-51s and the increase in production rates of VCS to two submarines per year. Through investments in our workforce, processes and facilities, and through the streamlining of our operations, we intend to support continued construction of these core U.S. Navy programs, ensure quality construction and make ships more affordable. We plan to continue to work to keep our U.S. Navy programs fully funded in order to avoid their delay or cancellation.

Ensure capabilities that support new U.S. Navy requirements. Through alignment with the U.S. Navy’s requirements in the 30-Year Plan, we intend to position ourselves as the provider of choice for new platforms and services related to our current core markets. In 2013, the U.S. Navy is expected to award the first aircraft carrier inactivation contract for CVN-65 USS Enterprise. We intend to complete construction of a new facility at our Newport News shipyard designed specifically for aircraft carrier inactivations, to ensure that we are the U.S. Navy’s choice for this and future aircraft carrier inactivations. We have also deployed our design and engineering talents and capabilities to support work as a subcontractor on the design of the SSBN(X) replacement for the aging Ohio-class ballistic missile submarines, in anticipation of our participation as a subcontractor in the construction of the expected 12 new submarines under that program. Additionally, we intend to position ourselves as the builder of choice for the LSD(X), the next class of amphibious ship expected to be built as a follow-on to the LPD-17 and LHA-6 classes of ships, for which we are currently the exclusive supplier.

Streamline our operations and footprint to deliver more affordable ships. To maintain our market position, we intend to monitor our operations to determine where strategic investments or consolidation may be necessary to allow us to provide the U.S. Navy with the highest quality, most technologically advanced ships possible, on a cost-effective basis. For example, in light of the U.S. Navy’s 30-Year Plan requirements and the need to continue to make ships more affordable for our customers, we intend to consolidate our Gulf Coast operations and footprint to shift all future Gulf Coast ship construction work to our Pascagoula and Gulfport facilities in Mississippi. Our construction activities at the Avondale shipyard in Louisiana are expected to wind down in 2013 when work on LPD-25 is completed. Future ship construction work would be performed at our larger and more modern Pascagoula shipyard. With this consolidation, we believe that we are ensuring the long-term viability of our Gulf Coast operations by making them more cost competitive through increased throughput, continuity of production, single learning curves and workload efficiency gains. We also expect that this consolidation may reduce program costs on some existing contracts and make future vessels more affordable for the U.S. Navy and the U.S. Coast Guard.

Execute well on all contracts.

Improve performance in our Gulf Coast operations. We intend to continue to improve quality, cost and schedule performance in our Gulf Coast operations to address past operational issues, such as quality and high rework costs caused by hurricane-related disruptions, and to maintain our market position on non-nuclear surface ship construction. To accomplish this, our Gulf Coast operations have recently implemented a new management approach that is geared toward planning and managing our work in discrete phases to drive performance, accountability and predictability. Through the Gulf Coast Operating System, we believe program managers will be better able to confirm that a ship is adhering to our newly developed standardized performance metrics, and to assure that we are providing a quality product in a safe, timely and cost-effective manner. By organizing the work on each ship class to provide for the construction in a carefully managed sequence, our Gulf Coast Operating System ensures that each ship within a class is constructed in the same way each time to maximize learning from ship to ship. We intend to continue to utilize the Gulf Coast Operating System across the spectrum of our ships to improve
both quality and efficiency of our building processes in all aspects of our design and construction activities, bringing together our engineers, craftspeople and technical workers. See “— Our Business—Gulf Coast.”

Capture the benefits of serial production. We intend to seek opportunities to maximize the quality and affordability of our ships through serial production, while ensuring that we undertake “first-in-class” construction where such construction is expected to lead to additional serial production. For example, in 2009, we entered into an agreement with the U.S. Navy to shift work on DDG-1001 Michael Monsoor to General Dynamics Bath Iron Works (“BIW”), in exchange for new construction work on two ships in the new flight of the DDG-51 Arleigh Burke-class, DDG-113 William S. Sims and DDG-114 Callaghan (the “Swap Agreement”). In 2008, the U.S. Navy announced that the more expensive DDG-1000 Zumwalt-class is being truncated to three ships. With the Swap Agreement, all three DDG-1000 ships will now be built at BIW, but we will remain the co-lead for the DDG-1000 design and will provide the integrated composite deckhouse and aft peripheral vertical launch system for all three ships. The U.S. Navy anticipates it will procure eight ships in the new flight of DDG-51s over the next five years. We believe the Swap Agreement allows us to benefit from serial production on DDG-51s and to reduce the programmatic complexity and risk of building the DDG-51 and DDG-1000 classes of destroyers simultaneously in one shipyard. We also believe the Swap Agreement eliminates the required investment for a single ship production run that would have occurred if we had built DDG-1001 Michael Monsoor.

Deliver quality products on contract targets. We are focused on delivering quality products on contract schedule and cost targets for all current contracts, which we believe will protect our market position and enhance our efforts to secure future contracts. We believe we must adhere to schedule and cost commitments and quality expectations on our current U.S. Navy contracts. Specifically, we must execute on our human capital strategy, create and sustain a first-time quality culture and capitalize on our supply chain management initiatives.

Our Business

We design and construct nuclear and non-nuclear ships for the U.S. Navy and U.S. Coast Guard, including nuclear-powered aircraft carriers and submarines, and non-nuclear surface combatants, amphibious assault ships and National Security Cutters. Additionally, through our shipyards and through our AMSEC and CMSD operations, we provide fleet maintenance and support services for the U.S. Navy’s ships. Our Newport News shipyard is also the exclusive supplier for the overhaul and refueling of nuclear-powered ships for the U.S. Navy.

Newport News

The capabilities of our Newport News operations extend from our core nuclear business of designing and constructing nuclear-powered ships, such as aircraft carriers and submarines and the refueling and overhaul of such ships, to our secondary businesses, which are focused on the construction of heavy manufacturing equipment for commercial nuclear power facilities and the operations, management and cleanup of environmental hazard sites through the DoE’s cleanup programs. Our Newport News shipyard is one of the largest shipyards in the United States. Our facilities are located on approximately 550 acres on the mouth of the James River, which adjoins the Chesapeake Bay. The shipyard has two miles of waterfront property and heavy industrial facilities that include seven graving docks, a floating dry dock, two outfitting berths, five outfitting piers, a module outfitting facility and various other workshops. Our Newport News shipyard also has a 2,170 foot drydock and a 1,050-ton gantry crane capable of servicing two aircraft carriers at one time.

Design, Construction and Refueling and Complex Overhaul of Aircraft Carriers

Engineering, design and construction of U.S. Navy nuclear aircraft carriers are core to our operations. Aircraft carriers are the largest ships in the U.S. Navy’s fleet, with a weight (displacement) of about 90,000 tons. Since 1933, Newport News has delivered 30 aircraft carriers to the U.S. Navy, including all 11 ships currently deployed.

The U.S. Navy’s newest carrier and the last of the CVN-68 Nimitz-class, CVN-77 USS George H.W. Bush, was delivered on May 11, 2009. Design work on the next generation carrier, the CVN-78 Gerald R. Ford-class, has been underway for over eight years. The CVN-78 Gerald R. Ford-class incorporates transformational technologies including an enhanced flight deck with increased sortie rates, improved weapons movement, a redesigned island, a new nuclear propulsion plant design, flexibility to incorporate future technologies and reduced manning. In 2008,
we were awarded a $5.1 billion contract for detail design and construction of the first ship of the class, CVN-78 Gerald R. Ford, which is scheduled for delivery in 2015. In 2009 we were also awarded construction preparation contracts totaling $451 million for the second CVN-78 Gerald R. Ford-class aircraft carrier, CVN-79 (unnamed). The duration of this initial CVN-79 award is two years plus a one-year option.

We continue to be the exclusive prime contractor for nuclear carrier RCOHs. Each RCOH takes over three years and accounts for approximately 35% of all maintenance and modernization in the service life of an aircraft carrier. RCOH services include propulsion (refueling of reactors, propulsion plant modernization, propulsion plant repairs), restoration of service life (dry docking, tank and void maintenance; hull shafting, propellers, rudders; piping repairs, replacement and upgrades; electrical systems upgrades; aviation capabilities) and modernization (warfare, interoperability and environmental compliance). We provide ongoing maintenance for the U.S. Navy aircraft carrier fleet through both RCOH and repair work. In 2009, the completion of the RCOH of CVN-70 USS Carl Vinson was followed by the arrival of CVN-71 USS Theodore Roosevelt, which is expected to be redelivered to the U.S. Navy following its RCOH in early 2013.

In 2010, we were awarded a $678 million planning contract (an initial award of $79 million with two one-year options) for the RCOH of CVN-72 USS Abraham Lincoln. In 2011, the first option was exercised for $207 million. We believe that our position as the exclusive designer and builder of nuclear-powered aircraft carriers, as well as the fact that this work requires a highly trained workforce, is capital-intensive and has high barriers to entry due to its nuclear requirements, strongly positions us as the frontrunner for the award of future RCOH contracts on the current and future fleet of U.S. Navy carriers.

**Aircraft Carrier Inactivation**

We anticipate that in 2013 the U.S. Navy will contract with us, through our Newport News shipyard, to inactivate CVN-65 USS Enterprise, the world’s first nuclear-powered aircraft carrier, which was built by us and commissioned in 1961. We are currently building the facility to perform this work at our Newport News shipyard. Additionally, as other aircraft carriers in the naval fleet age, we believe that the U.S. Navy will require inactivation of those ships, and we plan to be positioned as the best choice for the U.S. Navy to grant that work. Aircraft carriers generally have a lifespan of approximately 50 years, and we believe the 11 carriers we have delivered and those we deliver going forward present a significant opportunity for us in the future with respect to both RCOH and inactivation. We expect funding for an aircraft carrier inactivation to be approximately $650 million.

**Design and Construction of Nuclear-Powered Submarines**

We are one of only two U.S. companies capable of designing and building nuclear-powered submarines for the U.S. Navy. Since 1960, Newport News has delivered 56 submarines, including 42 fast attack and 14 ballistic submarines, to the U.S. Navy. Of the 53 nuclear-powered fast attack submarines currently in active service, 25 have been delivered by Newport News. Our nuclear submarine program, located at our Newport News shipyard, includes construction, engineering, design, research and integrated planning. In February 1997, Northrop Grumman and Electric Boat executed a teaming agreement to cooperatively build SSN-774 Virginia-class fast attack nuclear submarines. Under the present arrangement, we build the stem, habitability and machinery spaces, torpedo room, sail and bow, while Electric Boat builds the engine room and control room. Work on the reactor plant and the final assembly, test, outfit and delivery is alternated between us and Electric Boat with Electric Boat performing this work on the odd numbered deliveries and Newport News on the even numbered deliveries. The initial four submarines in the class were delivered in 2004, 2006 and 2008. With Electric Boat as the prime contractor and us as a principal subcontractor, the team was awarded a construction contract in August 2003 for the second block of six SSN-774 Virginia-class submarines, the first two of which were delivered in 2008 and 2009, respectively. Construction on the remaining four submarines of the second block is underway, with the last scheduled to be delivered in 2014. In December 2008, the team was awarded a construction contract for the third block of eight SSN-774 Virginia-class submarines. The multi-year contract allows us and our teammate to proceed with the construction of one submarine per year in 2010, increasing to two submarines per year from 2011 to 2013. The eighth submarine to be procured under this contract is scheduled for delivery in 2019.
SSBN(X) Ohio-Class Replacement Program

The 30-Year Plan discusses the U.S. Navy’s intention to focus on the design and construction of replacement boats for the current aging Ohio-class ballistic and cruise missile submarines. The U.S. Navy has committed to designing a replacement class for the aging Ohio-class nuclear ballistic submarines, which were first introduced into service in 1981. The SSBN(X) Ohio-class Submarine Replacement Program represents a new program opportunity for us. Electric Boat is expected to lead the program. Although the contract is not yet negotiated, we expect to share in the design effort and our experience and well-qualified workforce position us for a potential role in the construction effort. The Ohio-class includes 14 ballistic missile submarines (SSBN) and four cruise missile submarines (SSGN). The Ohio-class Submarine Replacement Program currently calls for 12 new ballistic missile submarines over a 15-year period for approximately $4 to $7 billion each. The first Ohio-class ballistic submarine is expected to be retired in 2029, meaning that the first replacement platform should be in commission by that time. The U.S. Navy has initiated the design process for this class of submarine, and we have begun design work as a subcontractor to Electric Boat. We cannot guarantee that we will continue to work on the SSBN(X) design with Electric Boat, and we can give no assurance regarding the final design concept chosen by the U.S. Navy or the amount of funding made available by Congress for the SSBN(X) Ohio-class Submarine Replacement Program. Construction is expected to begin in 2019 with the procurement of long-lead time materials in 2015. We believe that this program may represent a significant opportunity for us in the future.

Energy

Our DoE and Commercial Nuclear Programs leverage our core competencies in nuclear operations, program management and heavy manufacturing. We selectively partner with experienced industry leaders and we are significant participants in three joint ventures. Additionally, through our subsidiary Newport News Industrial Corporation (“NNI”), we are able to provide a range of services to the energy and petrochemical industries as well as government customers.

AREVA Newport News, LLC

In October 2008, we announced the formation of a joint venture, AREVA Newport News, LLC, with AREVA NP to build a new manufacturing facility in Newport News, Virginia to help supply heavy components to the civilian nuclear electrical power sector. AREVA Newport News plans to construct a production facility for the manufacture of heavy commercial nuclear power plant components. We are minority owners of the limited liability company that we formed pursuant to this joint venture.

DoE Programs

Savannah River

In January 2008, Savannah River Nuclear Solutions, LLC, our joint venture with Fluor Corporation and Honeywell International Inc., was awarded a five-year $4 billion contract for site management and operations of the DoE’s Savannah River Site located 12 miles south of Aiken, South Carolina. Work at the site includes management of a national laboratory and the cleanup of nuclear waste, both newly generated and backlogged and legacy wastes that exist at various facilities throughout the Savannah River Site. As part of the American Recovery and Reinvestment Act of 2009, Savannah River Nuclear Solutions was awarded a stimulus contract for $1.4 billion to deactivate and remediate several reactors and sites at the Savannah River Site. We have a 34% ownership stake in Savannah River Nuclear Solutions, LLC.

Idaho National Laboratory

We, together with our joint venture partner CH2M Hill, bid on environmental management and cleanup projects for the DoE at the Idaho National Laboratory, near Idaho Falls, Idaho. In March 2010, the team was awarded a six-year $590 million contract, which award was protested and is under re-evaluation by the DoE. We have a 25% ownership stake in CH2M Hill Newport News Nuclear, LLC.
NNI was incorporated in 1965 and provides a range of support services to operating commercial nuclear power plants. In the 45 years since it was founded, NNI has expanded its capabilities, continuing to provide support for nuclear energy work, as well as for fossil power plants and other industrial facilities. NNI focuses on fabrication services, construction services, equipment services, technical services and product sales to its customers, which include both private industry as well as government entities such as NASA, the DoE and the DoD.

VASCIC

Established in 1998 with state funding, VASCIC, located in Newport News, Virginia, is the only facility in the world devoted to furthering research for nuclear-powered aircraft carriers and submarines. VASCIC is a facility where we conduct on-site warfare systems testing, training and laboratory research for the next generation of aircraft carriers, submarines and other ships. The center houses a team of systems experts who work together to develop and test advanced technology systems for aircraft carriers and other U.S. Navy ships, with a goal of reducing cost and increasing capability. VASCIC benefits the U.S. Navy and we believe represents a competitive advantage for us by developing future naval capabilities, reducing total ownership cost and facilitating technology transfer.

Gulf Coast

Through our Gulf Coast operations, we design and construct non-nuclear ships for the U.S. Navy and U.S. Coast Guard, including amphibious assault ships, surface combatants and National Security Cutters. We are the sole supplier of amphibious assault ships to the U.S. Navy and have built 26 of the 62-ship DDG-51 Arleigh Burke-class of Aegis guided missile destroyers in active service. We are also the sole supplier of the large multi-mission National Security Cutters for the U.S. Coast Guard. Our Gulf Coast shipbuilding sites are located in Mississippi (Pascagoula and Gulfport) and Louisiana (Tallulah, Waggaman and Avondale). We intend to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time. Our various Gulf Coast facilities offer a collection of manufacturing capabilities with advantages, such as a 660-ton gantry crane, a shipbuilding facility focused on composite research and engineering and a Land Based Test Facility.

When our current management team assumed responsibility for NGSB in 2008, they identified key operational issues impacting the Gulf Coast. By applying best practices and lessons learned from lead ship construction experience, they implemented the Gulf Coast Operating System to improve performance across the Gulf Coast. We believe this new system will result in significant improvement in Gulf Coast operational performance.

The Gulf Coast Operating System organizes the construction of ships into 12-week phases with a discrete statement of work and cost and schedule goals. Through the Gulf Coast Operating System, program managers are able to ensure that a ship is adhering to our newly developed standardized performance metrics and that we are providing the highest possible quality products on a timely and cost-effective basis. The key features of the operating system are:

- **Ship class plans.** These plans apply to an entire class of ships and enforce conformity within the class. Construction is scheduled at the lowest level of work and in the most efficient work sequence by craft, thereby ensuring consistent ship construction and maximum “learning” (i.e., cost reduction) from ship to ship.

- **Phase commitment and “hot wash.”** This is a process whereby cost, schedule and work completion goals for each 12-week phase are established prior to commencing work. These commitments are the baseline for performance measurement, providing improved visibility for each phase and monitoring actual versus committed performance on a weekly basis. This additional rigor around completing work in the scheduled phase allows for timely corrective actions within the phase if actual performance deviates from commitments and precludes additional cost associated with out-of-phase work. At the completion of the phase, a
formal “hot wash” process occurs that documents actual performance versus commitments and enables adjustments to EACs and future phase plans. These EAC updates ensure timely adjustments are made and effectively reduce or eliminate surprises that traditionally accompany annual reviews of EAC.

- **Performance measurement.** Using standardized metrics, performance measurements have been institutionalized across the Gulf Coast to support the Operating System’s rhythm. The metrics include both lagging and leading indicators of performance. Each ship’s performance metrics are reviewed by management and staff weekly to allow for timely corrective actions and are also consolidated in an “Executive Dashboard” web-based visibility system for access by our entire management team.

- **Risk/opportunity management.** This process links a ship’s total risk and opportunity to phases of construction. Risk mitigation and opportunity plans are developed by phase and monitored to assess progress. The ship’s Program Manager owns the risk/opportunity process, which is administered by a centralized organization that ensures consistency throughout the portfolio.

- **Labor resource plan (“LRP”).** The LRP establishes employment requirements by craft or organization over the ship’s construction phase. The LRP integrates class plans and ship schedules with actual versus committed phase performance to establish hiring plans and the allocation of manning across ships. This integrated yard-wide labor resource plan enables an orderly proactive approach to hiring, overtime plans and movement of manning from ship to ship.

- **Quarterly estimate at completion.** The EAC process is performed on each ship and integrates performance across the Gulf Coast Operating System. It incorporates a bottom-up EAC process as well as top-down performance metrics to validate the program’s EAC. Each ship must address favorable or unfavorable results within the quarter and adjust (if necessary) program plan, EAC’s, and the program’s financials.

We believe that the increased integration and efficient utilization of workers, schedule and cost transparency and management oversight of the shipbuilding process through our Gulf Coast Operating System will enable us to execute on our current contracts, strengthen our position with the U.S. Navy and allow us to continue to improve our operations in the future.

**Amphibious Assault Ships**

We are the sole provider of amphibious assault and expeditionary warfare ships for the U.S. Navy. Design, construction and modernization of the U.S. Navy Large Deck Amphibious ships (LHA and LHD) are core to our Gulf Coast operations. In 2009, construction of LHD-1 *Wasp*-class multipurpose amphibious assault ships was concluded with the delivery of LHD-8 *USS Makin Island*. In 2007, we were awarded the construction contract for LHA-6 *America*, the first in a new class of enhanced amphibious assault ships designed from the keel up to be an aviation optimized Marine assault platform. The first ship of the LHA-6 *America*-class is currently under construction and we expect to deliver it in 2013. The LHA is a key component of the U.S. Navy-Marine Corps requirement for 11 Expeditionary Strike Groups/Amphibious Readiness Groups.

The LPD program is one of our Gulf Coast operations’ two long-run production programs where we have an opportunity to take advantage of cost reductions due to learning ship-over-ship. We are currently constructing four LPD-17 *San Antonio*-class amphibious transport dock ships: LPD-22 *San Diego* (scheduled for delivery in 2011) and LPD-24 *Arlington* (scheduled for delivery in 2012) in our Pascagoula, Mississippi shipyard, and LPD-23 *Anchorage* (scheduled for delivery in 2012) and LPD-25 *Somerset* (scheduled for delivery in 2013) in our Avondale shipyard. Additionally, long lead time material contracts for LPD-26 *John P. Martha* and LPD-27 (unnamed) were awarded in June 2009 and October 2010, respectively.

As we complete work on LPD-23 *Anchorage* and LPD-25 *Somerset*, we intend to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities (Waggaman and Tallulah) by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. We believe that this consolidation will allow our Gulf Coast shipbuilding decreased fixed overhead expenses, provide improved facility utilization and a more cost-efficient construction process and allow us to centralize our shipbuilding learning and realize the benefits of serial production. We expect that consolidation of operations in Pascagoula and Gulfport would reduce program costs on existing contracts and make future vessels more affordable, thereby reducing rates.
and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.

**Surface Combatants**

We are a design agent for and one of only two companies that constructs the DDG-51 *Arleigh Burke*-class guided missile destroyers, as well as major components for the DDG-1000 *Zumwalt*-class of land attack destroyers. We previously delivered 27 DDG-51 *Arleigh Burke*-class destroyers to the U.S. Navy and were awarded a long lead time material contract for a restart of the DDG-51 *Arleigh Burke*-class in December 2009. We delivered DDG-107 USS *Gravely* to the U.S. Navy in July 2010 and DDG-110 *William P. Lawrence* in February 2011. Our participation in the DDG-1000 *Zumwalt*-class guided missile destroyers program includes detailed design and construction of the ships’ integrated composite deckhouses, as well as portions of the ships’ aft peripheral vertical launch systems. The U.S. Navy expects to build three DDG-1000 *Zumwalt*-class destroyers. At our Gulfport, Mississippi shipyard, which is focused on composite research and engineering, we are currently constructing the composite superstructure of DDG-1000 *Zumwalt* and DDG-1001 *Michael Monsoor*.

As set forth in the 30-Year Plan, the U.S. Navy has decided to truncate the DDG-1000 *Zumwalt*-class program and restart the DDG-51 *Arleigh Burke*-class destroyer production line. As a result of that determination, in December 2009, we were awarded a $171 million long lead contract for the next ship in the DDG-51 *Arleigh Burke*-class. We anticipate that the DoD will award the construction contract for DDG-113 *William S. Sims* in 2011 and the construction contract for DDG-114 *Callaghan* in 2012. We intend to be the U.S. Navy’s contractor of choice for the construction of the DDG-51 *Arleigh Burke*-class ships.

**National Security Cutter**

We are a participant, along with Lockheed Martin, in the U.S. Coast Guard’s Deepwater Modernization Program. This program is designed to replace aging and operationally expensive ships and aircraft used to conduct missions in excess of 50 miles from the shoreline. The flagship of this program is the NSC, a multi-mission platform designed and built by us. This type of cutter meets or exceeds traditional U.S. Coast Guard mission requirements as well as counter-terrorism requirements. In 2006, ICGS, a joint venture between us and Lockheed Martin was awarded a 43-month extension of the original design and construction contract awarded to the joint venture for the Deepwater Modernization Program. The first National Security Cutter, NSC-1 USCGC *Bertholf*, was delivered to the U.S. Coast Guard in 2008 followed by NSC-2 USCGC *Waesche* in 2009. Currently, NSC-3 *Stratton* is in construction, and the construction contract for NSC-4 *Hamilton* was awarded in November 2010. Long-lead procurement is currently underway for NSC-5. We believe that future NSC procurements will be contracted directly to us and not to the joint venture.

**Fleet Support**

**AMSEC and Continental Maritime**

Fleet support provides comprehensive life-cycle services, including depot maintenance, modernization, repairs, logistics and technical support and planning yard services for naval and commercial vessels through our AMSEC and CMSD subsidiaries. We have ship repair facilities in Newport News, Virginia, and San Diego, California, which are near the U.S. Navy’s largest homeports of Norfolk, Virginia and San Diego. AMSEC provides naval architecture and marine engineering, ship system assessments, maintenance engineering and logistics services to the U.S. Navy and commercial maritime industry from 28 locations nationwide and overseas. On any given day, over 600 of our AMSEC employees are on board U.S. Navy ships, assessing equipment conditions, modernizing systems and training sailors. Through CMSD, a Master Ship Repair Contractor, we provide ship repair, regular overhaul and selected restricted availability services (pierside or in customer’s drydocks) for the U.S. Navy. We also perform emergent repair for the U.S. Navy on all classes of ships.
Customers

U.S. Government revenue accounted for substantially all of total revenue in 2010, 2009 and 2008. Of those revenues in 2010, 97% were from the U.S. Navy and 3% from the U.S. Coast Guard. While we are reliant upon the U.S. Government for substantially all of our business, we are also the design agent and sole supplier for the nuclear aircraft carrier CVN-68 *Nimitz*-class and CVN-78 *Gerald R. Ford*-class, and together with our teammate Electric Boat, we are responsible for the construction of the entire SSN-774 *Virginia*-class of nuclear submarines. We are the builder of 28 of the original 62-ship program for DDG-51 *Arleigh Burke*-class U.S. Navy destroyers and the builder of amphibious assault ships (LHA, LHD and LPD). In addition, we have built the largest multi-mission National Security Cutters for the U.S. Coast Guard.

Intellectual Property

We incorporate new technologies and designs into our vessels. With more than 2,500 engineers, designers and technicians, we develop and implement new ship technologies.

Research and Development

Our research and development activities primarily include independent research and development ("IR&D") efforts related to government programs. IR&D expenses are included in general and administrative expenses and are generally allocated to U.S. Government contracts. IR&D expenses totaled approximately $23 million, $21 million and $21 million for each of the years ended December 2010, 2009 and 2008, respectively. Expenses for research and development required by contracts are charged directly to the related contracts.

At VASCIC, we conduct on-site warfare systems testing, training and laboratory research for the next generation aircraft carriers, submarines and other ships. VASCIC serves as the focal point for the integration of ship systems and the application of new technologies. It has a classified facility and an integration area that allows for research and development related to setup and testing of electronic as well as hull, mechanical and electrical systems prior to introducing new equipment on board a ship. It also has modeling and simulation capability allowing for visualization using 3-D displays. See “—Our Business—VASCIC.”

Governmental Regulation and Supervision

Our business is affected by numerous laws and regulations relating to the award, administration and performance of U.S. Government contracts. See “Risk Factors—Risks Relating to Our Business.”

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its agencies such as the U.S. Navy’s Supervisor of Shipbuilding, the Defense Contract Audit Agency and the Defense Contract Management Agency. These agencies review our performance under our contracts, our cost structure and our compliance with applicable laws, regulations and standards, as well as the adequacy of, and our compliance with, our internal control systems and policies. Systems that are subject to review include but are not limited to our accounting systems, purchasing systems, billing systems, property management and control systems, cost estimating systems, earned value management systems, compensation systems and management information systems. Any costs found to be unallowable or improperly allocated to a specific contract will not be reimbursed or must be refunded if already reimbursed. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspension, or prohibition from doing business with the U.S. Government. The U.S. Government also has the ability to decrement payments when it deems systems subject to its review to be inadequate.

In addition, the U.S. Government generally has the ability to terminate contracts, in whole or in part, with little to no prior notice, for convenience or for default based on performance. In the event of termination for the government’s convenience, contractors are normally protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs, but not for anticipatory profit on the work that was terminated. Termination resulting from our default could expose us to various liabilities, including but not limited to excess
reprocurement costs, and could have a material adverse effect on our ability to compete for contracts. See “Risk Factors — Risks Relating to Our Business.”

In 2009, Congress passed legislation to improve the organization and procedures of the DoD for the acquisition of major weapons systems, including shipbuilding and maritime systems. This legislation, the Weapon System Acquisition Reform Act of 2009, requires the DoD to develop mechanisms to address cost, schedule and performance in establishing program requirements. As acquisition reform progresses, we will continue to anticipate and respond to the actions of the Pentagon and Congress to determine their impact on our operations.

U.S. Government contractors must comply with a myriad of significant procurement regulations and other requirements. Contracting with the U.S. Government may result in our filing of Requests for Equitable Adjustments (“REAs”) in connection with government contracts. REAs represent requests for the U.S. Government to make appropriate adjustments to aspects of a contract including pricing, delivery schedule, technical requirements or other affected terms, due to changes in the original contract requirements and resulting delays and disruption in contract performance for which the U.S. Government is responsible. REAs are prepared, submitted and negotiated in the ordinary course of business, and large REAs are not uncommon at the conclusion of both new construction and overhaul activities. Such REAs are not considered claims under the Contract Disputes Act of 1978, although they may be converted to such claims if good faith negotiations are unproductive.

In cases where there are multiple suppliers, contracts for the construction and conversion of U.S. Navy ships and submarines are generally subject to competitive bidding. In evaluating proposed prices, the U.S. Navy sometimes requires that each bidder submit information on pricing, estimated costs of completion and anticipated profit margins in order to assess cost realism. The U.S. Navy uses this and other data to determine an estimated cost for each bidder. Under U.S. Government regulations, certain costs, including certain financing costs and marketing expenses, are not allowable contract costs. The U.S. Government also regulates the methods by which all costs, including overhead, are allocated to government contracts.

Additional procurement regulations to which our contracts with various agencies of the U.S. Government and subcontracts with other prime contractors are subject include but are not limited to the Truth in Negotiations Act, the Procurement Integrity Act, the False Claims Act, Procurement Integrity Act, Cost Accounting Standards, the International Traffic in Arms Regulations promulgated under the Arms Export Control Act, the Close the Contractor Fraud Loophole Act and the Foreign Corrupt Practices Act. Noncompliance found by any one agency may result in fines, penalties, debarment or suspension from receiving additional contracts with all U.S. Government agencies.

**Raw Materials**

The most significant raw material we use is steel. Other materials used in large quantities include paint, aluminum, pipe, electrical cable and fittings. All of these materials are currently available in adequate supply from domestic and foreign sources. In connection with our government contracts, we are required to procure certain materials and component parts from supply sources approved by the U.S. Government. Generally, for all of our long-term contracts, we obtain price quotations for many of our materials requirements from multiple suppliers to ensure competitive pricing. We have not generally been dependent upon any one supply source; however, due largely to the consolidation of the defense industry, there are currently several components for which there is only one supplier. We believe that these sole source suppliers as well as our overall supplier base are adequate to meet our future needs. We have mitigated some supply risk by negotiating long-term agreements with a number of steel suppliers; such agreements are anticipated to be renegotiated in 2011. In addition, we have mitigated price risk related to steel purchases through certain contractual arrangements with the U.S. Government. We must continue our efforts to maintain sources for raw materials, fabricated parts, electronic components and major subassemblies. In this manufacturing and systems integration environment, effective oversight of subcontractors and suppliers is as vital to success as managing internal operations. While we have generally been able to obtain key raw materials required in our production processes in a timely manner, a significant delay in supply deliveries could have a material adverse effect on our financial position, results of operations or cash flows. See “Risk Factors—Risks Relating to Our Business.”
Competition

We primarily compete with General Dynamics and to a lesser extent with smaller shipyards, one or more of whom may be teamed with a large defense contractor. Intense competition related to programs, resources and funding, and long operating cycles are both key characteristics of our business and the defense industry. It is common in this industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor may, upon ultimate award of the contract to another party, turn out to be a subcontractor for the ultimate prime contracting party. It is not uncommon to compete for a contract award with a peer company and, simultaneously, perform as a supplier to or a customer of such competitor on other contracts. The nature of major defense programs, conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity not common in many industries.

We believe we are well-positioned in the market. Because we are the only company currently capable of building and refueling the U.S. Navy’s nuclear-powered aircraft carriers, we believe we are in a strong competitive position to be awarded any contracts to build or refuel nuclear-powered aircraft carriers. We are the only builder of large deck amphibious assault and expeditionary warfare ships for the U.S. Navy, including LHD, LHA and LPD, and would be positioned to be awarded any future contracts for these types of vessels. Our success in the competitive shipbuilding defense industry depends upon our ability to develop, market and produce our products and services at a cost consistent with the U.S. Navy’s budget, as well as our ability to provide the people, technologies, facilities, equipment and financial capacity needed to deliver those products and services with maximum efficiency.

Environmental, Health and Safety

Our manufacturing operations are subject to and affected by federal, state and local laws and regulations relating to the protection of the environment. We provide for the estimated cost to complete environmental remediation where we determine it is probable that we will incur such costs in the future in amounts we can reasonably estimate to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where we are named a Potentially Responsible Party (“PRP”) by the U.S. Environmental Protection Agency or similarly designated by other environmental agencies. These estimates may change given the inherent difficulty in estimating environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup, determination of legally responsible parties, and the status of laws, regulations and their interpretations.

We assess the potential impact on our financial statements by estimating the range of reasonably possible remediation costs that we could incur on a site-by-site basis, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. We review our estimates periodically and adjust them to reflect changes in facts and technical and legal circumstances. We record accruals for environmental cleanup costs in the accounting period in which it becomes probable we have incurred a liability and the costs can be reasonably estimated. We record insurance recoveries only when we determine that collection is probable and we do not include any litigation costs related to environmental matters in our environmental remediation accrual.

We estimate that as of December 31, 2010, the probable future costs for environmental remediation sites is $3 million, which is accrued in other current liabilities in the consolidated statements of financial position. We record environmental accruals on an undiscounted basis. At sites involving multiple parties, we provide environmental accruals based upon our expected share of liability, taking into account the financial viability of other jointly liable parties. We expense or capitalize environmental expenditures as appropriate. Capitalized expenditures relate to long-lived improvements in currently operating facilities. We may have to incur costs in addition to those already estimated and accrued if other PRPs do not pay their allocable share of remediation costs, which could have a material effect on our business, financial position, results of operations or cash flows. We have made the investments we believe necessary to comply with environmental laws. Although we cannot predict whether information gained as projects progress will materially affect the estimated accrued liability, we do not anticipate that future remediation expenditures will have a material adverse effect on our financial position, results of operations or cash flows.
We may incur future environmental costs at some point that may be related to the wind down of our construction activities at Avondale. Due to insufficient information about the nature, timing and extent of any potential environmental remediation and costs that we may experience at some point, these costs are not reasonably estimable at this time. Accordingly, potential environmental costs associated with the wind down of our construction activities at Avondale are not included in the estimated $3 million of probable future costs for environmental remediation sites discussed above, in the $310 million estimate of asset write downs and restructuring-related Avondale costs noted above or in the consolidated financial statements. Based on the FAR, we expect that a significant portion of any potential future environmental costs would be recoverable consistent with government accounting practices.

We believe that we are in material compliance with all applicable environmental regulations, and historical environmental compliance costs have not been material to our business. However, on June 4, 2010, the EPA proposed new regulations at 40 CFR Part 63 Subpart DDDD entitled “National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial, and Institutional Boilers and Process Heaters.” NGSB owns and operates five residual oil-fired industrial boilers for supplying process and building steam along with supplying high pressure steam to ships under construction. We believe that these boilers will be significantly adversely affected by these regulations, if adopted as proposed and would likely need to be replaced. The capital cost to replace these could be significant. However, on December 2, 2010, the EPA official responsible for these regulations stated publicly that the proposed emissions limits in the regulation were unachievable. On December 7, 2010, the EPA filed papers in court to secure an extension of up to 15 months on the current judicial deadline governing these regulations in order to repropose a revised set of regulations. Pursuant to a court order, the EPA is expected to promulgate final regulations in February 2011. The EPA has stated that these final rules will be “significantly different” than the June 2010 proposed rules and will be immediately subject to administrative reconsideration. Given the regulatory uncertainty, it is impossible to predict the impact of these regulations at this time.

We could be affected by future laws or regulations, including those enacted in response to climate change concerns and other actions known as “green initiatives.” We recently established an internal goal of reducing our greenhouse gas emissions during the next five years. To comply with current and future environmental laws and regulations and to meet this goal, we expect to incur capital and operating costs, but at this time we do not expect that such costs will have a material adverse effect on our financial position, results of operations or cash flows.

With regard to occupational health and safety, the Shipbuilding and Ship Repair industry involves work with many hazardous materials and processes, and remains one of the most highly hazardous industry segments. According to the Bureau of Labor statistics, the Shipbuilding and Ship Repair industry (SIC Code 3731) ranks among the highest in virtually every injury metric. Nevertheless, in terms of serious injuries at our operations, there have been six industrial related fatalities in the past six years, and none in the past two years. There are no outstanding Occupational Safety & Health Administration (“OSHA”) investigations or violations, and our internal audit program seeks to assure that our OSHA compliance programs remain strong. In 1995, our Newport News, Virginia shipyard became the only shipyard to be awarded the Star Award from the Occupational Safety and Health Administration’s Voluntary Protection Program (“OSHA VPP”). To earn this award, we joined efforts with our unions and supported the participation in the Voluntary Protection Program in which all parties help each other to make our shipyard a safer place to work. Since then, our Gulfport, Mississippi and Tallulah and Waggaman, Louisiana facilities have all also been certified as OSHA VPP Star Sites. Additionally, our Avondale facility in New Orleans, Louisiana and our Continental Maritime facility in San Diego, California facilities have been certified as OSHA VPP Merit Sites.

The Nuclear Regulatory Commission, the Department of Energy and the DoD regulate and control various matters relating to nuclear materials that we handle. Subject to certain requirements and limitations, our government contracts generally provide for indemnity by the U.S. Government for costs arising out of or resulting from certain nuclear risks.
Employees

We have approximately 39,000 employees. We are the largest industrial employer in Virginia and the largest private employer in Mississippi. Our workforce contains many third-, fourth- and fifth-generation shipbuilding employees. We employ individuals specializing in 19 crafts and trades, including more than 7,500 engineers and designers and more than 1,000 employees with advanced degrees. Employees who have been with us or our predecessors for over 40 years achieve the title of Master Shipbuilder. At December 31, 2010, we had 771 Master Shipbuilders (506 in Newport News, 265 in the Gulf Coast). Additionally, we employ nearly 6,200 veterans.

At our Newport News shipyard, we operate the Apprentice School, which trains over 750 apprentices each year in 19 trades and several advanced programs. Our Gulf Coast Apprentice School currently has nearly 1,000 registered apprentices in its programs. Apprentices are paid as full-time employees for the duration of their studies, and usually continue to work with us upon graduation. From nuclear pipe welders to senior executives, over 2,650 alumni of the Apprentice School at Newport News and over 1,775 alumni of our Gulf Coast Apprentice School continue to work with us.

Approximately 50% of our employees are covered by a total of 10 collective bargaining agreements. We expect to re-negotiate each of our collective bargaining agreements between 2012 and 2014 as they approach expiration. It is not expected that the results of these negotiations will have a material adverse effect on our financial position, results of operations or cash flows. We believe that our relationship with our employees is satisfactory.

Properties

At December 31, 2010, we had operations in San Diego, California; Avondale (New Orleans), Louisiana; Gulfport and Pascagoula, Mississippi; and Hampton, Newport News and Suffolk, Virginia. We also lease and/or own office buildings related to our operations in both Virginia Beach, Virginia and Washington, D.C.

Newport News. Our facilities located in Newport News, Virginia are on approximately 550 acres that we own at the mouth of the James River, which adjoins the Chesapeake Bay, the premier deep water harbor on the east coast of the United States. Our Newport News shipyard is one of the largest in the United States. It is the nation’s sole designer, builder and refueler of nuclear-powered aircraft carriers and one of only two companies capable of designing and building nuclear-powered submarines for the U.S. Navy. The shipyard also provides services for naval and commercial vessels. Its facilities include seven graving docks, a floating dry dock, two outfitting berths, five outfitting piers, a module outfitting facility and various other shops. Dry Dock 12 has been extended to 662 meters. Dry Dock 12 is serviced by a 1,050 metric ton capacity gantry crane that spans the dry dock and work platen.

Our Newport News shipyard also has a variety of other facilities including an 18-acre all-weather on-site steel fabrication shop, accessible by both rail and transporter, a module outfitting facility which enables us to assemble a ship’s basic structural modules indoors and on land, machine shops totaling 300,000 square feet, and its own school which provides a four-year accredited apprenticeship program that trains shipbuilders.

We believe that substantially all of our plants and equipment are, in general, well maintained and in good operating condition. They are considered adequate for present needs and, as supplemented by planned construction, are expected to remain adequate for the near future.

Gulf Coast. Our five properties across the Gulf Coast are located in Pascagoula and Gulfport, Mississippi and Avondale, Tallulah and Waggaman, Louisiana. In addition, our facilities in San Diego, California and Virginia Beach, Virginia are considered part of our Gulf Coast operations.

Our Pascagoula shipyard is a main provider of major surface warships to the U.S. Navy and has modernized dozens of other naval ships. It is the only U.S. shipyard in recent years to be developing and building six different classes of ships for the U.S. Navy and U.S. Coast Guard. Our facilities in Pascagoula sit on approximately 800 acres on the banks of the Pascagoula River where it flows into the Mississippi Sound. We lease the west bank of our Pascagoula facility from the State of Mississippi pursuant to a 99-year lease (consisting of a 40-year base term plus six additional option terms). We anticipate continued use of this facility for the remaining currently anticipated 56 years on the lease and beyond.
Our components facility in Gulfport, Mississippi, is on approximately 120 acres and is focused on composite research and engineering. The facility is currently building the DDG-1000 composite deckhouses. We believe that this composites capability, coupled with strong alliances with several universities and suppliers, positions us to take advantage of any shift toward lighter-weight topside composite structures in U.S. Naval and U.S. Coast Guard applications.

Our Avondale shipyard is on approximately 268 acres located on the banks of the Mississippi River approximately 12 miles upriver from downtown New Orleans. This site has the capacity to manufacture large amphibious assault and military and commercial transport vessels, and includes three outfitting docks totaling more than 6,000 linear feet. In addition to the shipyard, operations include the Maritime Technology Center of Excellence.

Our Tallulah facility consists of a 115,000-square foot production shop.

Our Waggaman facility is located three miles upriver from the Avondale shipyard and features an 81,625-square foot production facility that consists of a machine shop, a fabrication and assembly area, a piping production area, a warehouse and a paint booth.

Our San Diego and Virginia Beach facilities provide fleet support services.

Our Gulf Coast operations continue to recover from the infrastructure and workforce impacts from Hurricane Katrina in 2005. In August 2005, our shipyards in Louisiana and Mississippi sustained significant windstorm damage as a result of Hurricane Katrina, causing work and production delays. We incurred costs to replace or repair and improve destroyed and damaged assets, suffered losses under our contracts, and incurred substantial costs to clean up and recover our operations. We invested significant capital to harden, protect and modernize our Pascagoula facilities, and to ensure the shipyard’s robustness. In 2008, our Gulf Coast shipyards were affected by Hurricane Gustav and Hurricane Ike. As a result of Hurricane Gustav, our shipyards experienced a shut-down for several days and a resulting minor delay in ship construction throughout the yards; however, the storm caused no significant physical damage to the yards, we believe in part due to our successful hardening and improvement after Hurricane Katrina. Hurricane Ike severely impacted a subcontractor’s operations in Texas. The subcontractor produced compartments for two of the LPD amphibious transport dock ships under construction at the Gulf Coast shipyards. As a result of the delays and cost growth caused by the subcontractor’s production delays, our operating income was reduced during the second half of 2008.

We intend to wind down our construction activities at Avondale, our Louisiana shipyard, in 2013 and two Louisiana components facilities by 2013 and consolidate all Gulf Coast construction into our Mississippi facilities. We expect that consolidation of operations in Mississippi would reduce program costs on existing contracts and make future vessels more affordable, thereby reducing rates and realizing cost savings for the U.S. Navy and the U.S. Coast Guard. We are also exploring the potential for alternative uses of the Avondale facility by new owners, including alternative opportunities for the workforce there. We expect that process to take some time.

**Legal Proceedings**

_U.S. Government Investigations and Claims._ Departments and agencies of the U.S. Government have the authority to investigate various transactions and operations of our 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 or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or a division or subdivision. Suspension or debarment could have a material adverse effect on us because of our reliance on government contracts.

In the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Modernization Program for eight converted 123-foot patrol boats based on alleged “hull buckling and shaft alignment problems” and alleged “nonconforming topside equipment” on the vessels. We submitted a written response that argued that the revocation of acceptance was improper. The U.S. Coast Guard advised ICGS, which was formed by us and Lockheed Martin to perform the Deepwater Modernization Program, that it was seeking $96 million from ICGS as a result of the revocation of acceptance. The majority of the costs associated with the 123-
foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with us and one of our subcontractors. In 2008, the U.S. Coast Guard advised ICGS that the U.S. Coast Guard would support an investigation by the U.S. Department of Justice of ICGS and its subcontractors instead of pursuing its $96 million claim independently. The Department of Justice conducted an investigation of ICGS under a sealed False Claims Act complaint filed in the U.S. District Court for the Northern District of Texas and decided in early 2009 not to intervene at that time. On February 12, 2009, the District Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against us, ICGS, Lockheed Martin Corporation relating to the 123-foot conversion effort. Damages under the False Claims Act are subject to trebling. On October 15, 2009, the three defendants moved to dismiss the Fifth Amended complaint. On April 5, 2010, the District Court ruled on the defendants’ motions to dismiss, granting them in part and denying them in part. As to us, the District Court dismissed conspiracy claims and those pertaining to the C4ISR systems. On October 27, 2010, the District Court entered summary judgment for us on DeKort’s HM&E claims brought against us. On November 10, 2010, DeKort acknowledged that with the dismissal of the HM&E claims, no issues remained against us for trial and the District Court subsequently vacated the December 1, 2010 trial. On November 12, 2010, DeKort filed a motion for reconsideration regarding the District Court’s denial of his motion to amend the Fifth Amended complaint. On November 19, 2010, DeKort filed a second motion for reconsideration regarding the District Court’s order granting summary judgment on the HM&E claims. Based upon the information available to us to date, we believe that we have substantive defenses to any potential claims but can give no assurance that we will prevail in this litigation.

Litigation. We are party to various investigations, lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Based on information available, we believe that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on our financial position, results of operations or cash flows.

We are pursuing legal action against an insurance provider, FM Global, arising out of a disagreement concerning the coverage of certain losses related to Hurricane Katrina (see “Notes to Consolidated Financial Statements—Note 15”). Legal action was commenced against FM Global on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the District Court issued an order finding that the excess insurance policy provided coverage for Katrina-related losses. FM Global appealed the District Court’s order and on August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of Northrop Grumman’s interest, holding that the FM Global excess policy unambiguously excludes damage from the storm surge caused by Hurricane Katrina under its “Flood” exclusion. The Ninth Circuit remanded the case to the District Court to determine whether the California efficient proximate cause doctrine affords coverage sought by Northrop Grumman under the policy even if the Flood exclusion of the policy is unambiguous. On April 2, 2009, the Ninth Circuit denied Northrop Grumman’s Petition for Rehearing and remanded the case to the District Court. On June 10, 2009, Northrop Grumman filed a motion seeking leave of court to file a complaint adding Aon as a defendant. On July 1, 2009, FM Global filed a motion for partial summary judgment seeking a determination that the California efficient proximate cause doctrine is not applicable or that it affords no coverage under the policy. On August 26, 2010, the District Court denied Northrop Grumman’s motion to add Aon as a defendant to the case pending in federal court, finding that Northrop Grumman has a viable option to bring suit against Aon in state court. Also on August 26, the District Court granted FM Global’s motion for summary judgment based upon California’s doctrine of efficient proximate cause, and denied FM Global’s motion for summary judgment based upon breach of contract, finding that triable issues of fact remained as to whether and to what extent we sustained wind damage apart from the storm surge that inundated our Pascagoula facility. We believe that we are entitled to full reimbursement of our covered losses under the excess policy. The District Court has scheduled trial on the merits for April 3, 2012. On January 27, 2011, Northrop Grumman filed an action against Aon Insurance Services West, Inc., formerly known as Aon Risk Services, Inc. of Southern California, in Superior Court in California alleging breach of contract, professional negligence, and negligent misrepresentation. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of these matters.

However, if either of these claims are successful, the potential impact to our consolidated financial position, results of operations or cash flows would be favorable.

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During 2008, notification from Munich Re, the only remaining insurer within the primary layer of insurance coverage with which a resolution has not been reached, was received noting that it will pursue arbitration proceedings against Northrop Grumman related to approximately $19 million owed by Munich Re to NGRMI, a wholly owned subsidiary of Northrop Grumman, for certain losses related to Hurricane Katrina. An arbitration was later invoked by Munich Re in the United Kingdom under the reinsurance contract. Northrop Grumman was also notified that Munich Re is seeking reimbursement of approximately $44 million of funds previously advanced to NGRMI for payment of claim losses of which Munich Re provided reinsurance protection to NGRMI pursuant to an executed reinsurance contract, and $6 million of adjustment expenses. The arbitral panel has set a hearing for November 14, 2011. We believe that NGRMI is entitled to full reimbursement of its covered losses under the reinsurance contract and has substantive defenses to the claim of Munich Re for return of the funds paid to date. If the matters are resolved in NGRMI’s favor, then NGRMI would be entitled to the remaining $19 million owed for covered losses and it would have no further obligations to Munich Re. Payments to be made to NGRMI in connection with this matter would be for the benefit of our accounts, and reimbursements to be made to Munich Re would be made by us, if any.

On January 31, 2011, the U.S. Department of Justice first informed Northrop Grumman and us of a False Claims Act complaint that we believe was filed under seal by a relator (the plaintiff) in mid-2010 in the U.S. District Court for the District of Columbia. The redacted copy of the complaint that we received (the “Complaint”) alleges that through largely unspecified fraudulent means, Northrop Grumman and we obtained federal funds that were restricted by law for the consequences of Hurricane Katrina, and used those funds to cover costs under certain shipbuilding contracts that were unrelated to Hurricane Katrina and for which Northrop Grumman and we were not entitled to recovery under the contracts. The Complaint seeks monetary damages of at least $835 million, plus penalties, attorney’s fees and other costs of suit. Damages under the False Claims Act may be trebled upon a finding of liability.

For several years, Northrop Grumman has pursued recovery under its insurance policies for Hurricane Katrina-related property damage and business interruption losses. One of the insurers involved in those actions has made allegations that overlap significantly with certain of the issues raised in the Complaint, including allegations that Northrop Grumman and we used certain Hurricane Katrina-related funds for losses under the contracts unrelated to the hurricane. Northrop Grumman and we believe that the insurer’s defenses, including those related to the use of Hurricane Katrina funding, are without merit.

We have agreed to cooperate with the government investigation relating to the False Claims Act Complaint. We have been advised that the Department of Justice has not made a decision whether to intervene. Based upon our review to date of the information available to us, we believe we have substantive defenses to the allegations in the Complaint. We believe that the claims as set forth in the Complaint evidence a fundamental lack of understanding of the terms and conditions in our shipbuilding contracts, including the post-Katrina modifications to those contracts, and the manner in which the parties performed in connection with the contracts. Based upon our review to date of the information available to us, we believe that the claims as set forth in the Complaint lack merit and are not likely to result in a material adverse effect on our consolidated financial position. We intend vigorously to defend the matter, but we cannot predict what new or revised claims might be asserted or what information might come to light so can give no assurances regarding the ultimate outcome.

Additionally, we and our predecessors in interest are defendants in several hundred cases filed in numerous jurisdictions around the country wherein former and current employees and various third parties allege exposure to asbestos-containing materials on or associated with our premises or while working on vessels constructed or repaired by us. Some cases allege exposure to asbestos-containing materials through contact with our employees and third persons who were on the premises. The cases allege various injuries including those associated with pleural plaque disease, asbestosis, cancer, mesothelioma and other alleged asbestos-related conditions. In some cases, in addition to us, several of our former executive officers are also named defendants. In some instances, partial or full insurance coverage is available to us for our liability and that of our former executive officers. Because of the varying nature of these actions, and based upon the information available to us to date, we believe we have substantive defenses in many of these cases but can give no assurance that we will prevail on all claims in each of these cases. We believe that the ultimate resolution of these cases will not have a material adverse effect on our financial position, results of operations or cash flows. See “Notes to Consolidated Financial Statements—Note 14.”
MANAGEMENT

Our Executive Officers

The following table sets forth certain information as of March 14, 2011, concerning certain of our executive officers, including a five-year employment history and any directorships held in public companies following the spin-off.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position(s)</th>
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<tbody>
<tr>
<td>C. Michael Petters</td>
<td>51</td>
<td>President and Chief Executive Officer</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>52</td>
<td>Vice President and Chief Financial Officer</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>56</td>
<td>Vice President and General Manager—Gulf Coast Operations</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>51</td>
<td>Vice President and General Manager—Newport News Operations</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>46</td>
<td>Vice President and Chief Human Resources Officer</td>
</tr>
</tbody>
</table>

C. Michael Petters, President and Chief Executive Officer—Mr. Petters has been President of Northrop Grumman Shipbuilding since 2008, when NGSB was formed, and was previously President of the Newport News sector. Since joining the Company in 1987, his responsibilities have included oversight of the Virginia-class submarine program, the nuclear-powered aircraft carrier programs, aircraft carrier overhaul and refueling, submarine fleet maintenance, commercial and naval ship repair, human resources and business and technology development. Mr. Petters holds a Bachelor of Science degree in Physics from the United States Naval Academy and a Master of Business Administration degree from the College of William and Mary.

Barbara A. Niland, Vice President and Chief Financial Officer—Ms. Niland has been Sector Vice President, Business Management and Chief Financial Officer for NGSB since 2008, when NGSB was formed. In that position, she has been responsible for strategy and processes supporting growth and profitability goals, as well as the business management functions of NGSB. Since joining Northrop Grumman in 1979, Ms. Niland has held a variety of positions, including Vice President of Business Management and Chief Financial Officer of the Newport News sector. Ms. Niland holds a Bachelor of Science degree in finance from Towson State University and a Master of Business Administration degree from the University of Maryland University College.

Irwin F. Edenzon, Vice President and General Manager—Gulf Coast Operations—Mr. Edenzon has been Sector Vice President and General Manager, Gulf Coast since 2008, when NGSB was formed. Since Mr. Edenzon joined the Company in 1997, his responsibilities have included overseeing Newport News’ Technical Engineering Division, Advanced Programs and Internal Research, as well as serving as Vice President for Business and Technology Development, and Vice President for Technology Development and Fleet Support of the Newport News sector. Mr. Edenzon holds a Bachelor of Arts degree in Criminal Justice, magna cum laude, from Rutgers University and a Master of Business Administration degree from Florida Atlantic University.

Matthew J. Mulherin, Vice President and General Manager—Newport News Operations—Mr. Mulherin has been Sector Vice President and General Manager, Newport News since 2008. Since joining the Company in 1981, Mr. Mulherin has had many responsibilities, including serving as Vice President of the CVNX program, Vice President of the CVN-21 program, and Vice President of Programs for the Newport News operations, where he successfully led the aircraft carrier design and construction programs, carrier refueling and overhaul programs and the submarine program. Mr. Mulherin holds a Bachelor of Science degree in Civil Engineering from Virginia Tech.

William R. Ermatinger, Vice President and Chief Human Resources Officer—Mr. Ermatinger has been Sector Vice President of Human Resources and Administration since 2008, when NGSB was formed. In that position, he has been responsible for all NGSB human resources and administration activities. Since joining the Company in 1987, Mr. Ermatinger has held several human resources management positions with increasing responsibility, including Vice President of Human Resources and Administration of the Newport News sector. Mr. Ermatinger holds a Bachelor of Arts degree in Political Science from the University of Maryland Baltimore County (UMBC).
Our Board of Directors

The following table sets forth information with respect to those persons who are expected to serve on our board of directors following the spin-off. See “Management—Our Executive Officers” for Mr. Petters’s biographical information.

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas B. Fargo</td>
<td>62</td>
<td>Chairman</td>
</tr>
<tr>
<td>C. Michael Petters</td>
<td>51</td>
<td>Director</td>
</tr>
<tr>
<td>Robert Bruner</td>
<td>61</td>
<td>Director</td>
</tr>
<tr>
<td>Artur Davis</td>
<td>43</td>
<td>Director</td>
</tr>
<tr>
<td>Anastasia Kelly</td>
<td>61</td>
<td>Director</td>
</tr>
<tr>
<td>Paul D. Miller</td>
<td>69</td>
<td>Director</td>
</tr>
<tr>
<td>Tom Schievelbein</td>
<td>57</td>
<td>Director</td>
</tr>
<tr>
<td>Karl von der Heyden</td>
<td>74</td>
<td>Director</td>
</tr>
</tbody>
</table>

Thomas B. Fargo, Chairman—Admiral Fargo joined the private sector in March of 2005 following a 35-year career in the Department of Defense and the U.S. Navy. He was President of Trex Enterprises until April of 2008 when he became a Managing Director and member of the Operating Executive Board of J.F. Lehman and Company. He currently holds the John M. Shalikashvili Chair in National Security Studies at the National Bureau of Asian Research. Admiral Fargo serves on the boards of directors of Northrop Grumman Corporation, Hawaiian Electric Industries and USAA. Prior public company experience included Chairman of the Compensation Committee of Hawaiian Airlines. His last assignment on active duty was as Commander, U.S. Pacific Command, leading the largest unified command while directing the joint operations of the Army, Navy, Air Force and Marine Corps. His service included six tours in Washington, D.C. and five Commands in the Pacific, Indian Ocean and Middle East.

Robert Bruner, Director—Dr. Bruner currently serves as the dean of the Darden Graduate School of Business Administration at the University of Virginia, where he has been a faculty member since 1982. Dr. Bruner is a financial economist whose research focuses in the areas of capital structure management, commercial and investment banking and corporate finance and he frequently works as a consultant for leading banks and professional services firms to train employees on these subjects. He has published numerous books and articles on a variety of investment bank and finance topics and has created a variety of instructional software programs on corporate value creation. Dr. Bruner was the founding co-editor, and since 2004 has served on the Advisory Board, of the Emerging Markets Review. From 1996 to 2010, Dr. Bruner served as Co-Editor of Educator: Courses, Cases, and Teaching, which is a successor to Finance Teaching and Case Abstracts, which Dr. Bruner founded in 1996. Presently, Dr. Bruner chairs a Task Force on the Globalization of Management for AACSB International, and is also chairman of the Board of the Consortium for Graduate Study in Management. Prior to his time in academia, he worked as a banker at First Chicago Corporation for three years, and also served in the U.S. Army Reserve from 1971 to 1977. Dr. Bruner received a B.A. from Yale University and an M.B.A. and a D.B.A. from Harvard University.

Artur Davis, Director—Mr. Davis joined the law firm SNR Denton in 2011 as a partner in the white collar crime and government investigations section. Prior to joining SNR Denton, Mr. Davis served four terms as a member of the United States House of Representatives, representing Alabama’s Seventh Congressional District. He served for four years as a member of the Ways and Means Committee, which has exclusive jurisdiction over tax-writing policy, and during his tenure, also served on the Committee on House Administration, the Judiciary Committee, the Budget Committee and the House Financial Services Committee, previously called the Banking Committee. Mr. Davis served as co-chair of the House New Democrat Caucus for four years. Mr. Davis received a B.A., magna cum laude, and a J.D., cum laude, both from Harvard University.

Anastasia Kelly, Director—Ms. Kelly joined the law firm of DLA Piper in 2010 as a partner. Prior to joining DLA Piper, she was an Executive Officer of American International Group, Inc. (“AIG”) from 2006 to 2010, serving as Executive Vice President and General Counsel from 2006 to January 2009 and as Vice Chairman until December 2009, specifically dealing with legal, regulatory, corporate governance and risk management issues. Prior to joining AIG, Ms. Kelly was an executive and general counsel of several large, publicly traded companies, including MCU.
WorldCom, Sears, Roebuck and Co., and Fannie Mae. She serves as a director and member of the Compensation and Risk Committees of Owens-Illinois, Inc., the world’s largest manufacturer of glass containers, and sits on the board of numerous philanthropic organizations. Ms. Kelly serves as a trustee of the Carey School of Business at Johns Hopkins University and is also a member of the Rock Center for Corporate Governance at Stanford University Law School. She is also past Chair of Equal Justice Works and a Director of Lawyers for Children America and the International Institute for Conflict Prevention & Resolution. She was a director of Saxon Capital from 2005 to 2007. Ms. Kelly received a B.A., cum laude, from Trinity University and a J.D., magna cum laude, from George Washington Law School. Ms. Kelly is a member of the Texas Bar, the District of Columbia Bar and the American Bar Foundation.

Paul D. Miller, Director—Admiral Miller served as Chairman and CEO of Alliant Techsystems Inc., an aerospace and defense company, from 1999 until his retirement in 2005. He was also the President and CEO of Sperry Marine from 1994 to 1998, a company that was acquired by Litton Industries in 1997. During his 30-year career with the U.S. Navy, Admiral Miller served as Commander-in-Chief, U.S. Atlantic Command, one of five U.S. theater commands, and served concurrently as NATO Supreme Allied Commander-Atlantic. Since 2001, Admiral Miller has served on the board of directors as a member of the audit committee of both Donaldson Company, Inc. and Teledyne Technologies, Inc. Additionally, he was a director at Atlantic Marine Inc., a private company, from 2009 until the company was sold in 2010. Admiral Miller has a B.A. from Florida State University, completed the U.S. Navy War College, has an M.B.A. from the University of Georgia, and completed the Executive Management Program (PDM) at Harvard Business School.

Tom Schievelbein, Director—Mr. Schievelbein is the Lead Director of New York Life Insurance Co., where he has served as a member of the board of directors since 2006, and has been a member of the board of directors of Brinks Co., where he serves as a member of the Audit Committee, since March 2009, and McDermott International Inc., where he serves as the chair of the Compensation Committee, since February 2004. Mr. Schievelbein served as the President of Northrop Grumman Newport News and was a member of the Northrop Grumman Corporate Policy Council from November 2001 until his retirement in November 2004. Mr. Schievelbein served as Chief Operating Officer of Newport News Shipbuilding Inc. from 1995 until 2001 and was responsible for the design, construction and maintenance of nuclear-powered aircraft carriers and submarines. His experience includes the Virginia-class submarine program, CVN-76, CVN-77 and CVN-21 aircraft carrier programs, aircraft carrier overhaul and refueling, submarine fleet maintenance, commercial and naval ship repair and business development. Mr. Schievelbein is also a past member of the Secretary of the Navy’s Advisory Panel. Mr. Schievelbein holds a B.S. in Marine Engineering from the United States Naval Academy and a Master’s Degree in Nuclear Engineering from the University of Virginia.

Karl von der Heyden, Director—Mr. von der Heyden currently serves as co-chairman of The American Academy in Berlin and as a trustee of New York City Global Partners. He has served on the board of directors of several public companies, including DreamWorks Animation SKG Inc. (October 2005 to June 2009), Macy’s, Inc. (February 1992 to May 2010), Aramark Corporation (September 2001 to December 2006), PanAmSat (March 2005 to May 2006) and NYSE Euronext, Inc. (December 2005 to May 2008). From 1996 to 2001, Mr. von der Heyden was vice chairman of the board of directors of PepsiCo, Inc., where he also served in various senior management capacities, including as chief financial officer. Mr. von der Heyden was previously co-chairman and chief executive officer of RJR Nabisco, president and chief executive officer of Metallgesellschaft Corp. and senior vice president, chief financial officer and a director of and H.J. Heinz Company. He is a former trustee of Duke University, the YMCA of Greater New York and other non-profit organizations. He has served as Chairman of the Financial Accounting Standard Board’s Advisory Council and was a senior adviser to the Clipper Group, a private equity firm. Mr. von der Heyden attended the Free University of Berlin and has received a B.A. from Duke University and an M.B.A. from the Wharton School of Business at the University of Pennsylvania. He has also received a CPA certificate.

Qualifications of Directors

We believe the board of directors should be comprised of individuals with appropriate skills and experiences to meet board governance responsibilities and contribute effectively to the company. Pursuant to its charter, the Governance Committee will review the skills and experiences of directors and nominee candidates before
nominating directors for election to the board. All of our non-employee directors are expected to serve on board committees, further supporting the board by providing expertise to those committees. The needs of the committees will also be reviewed when considering nominees to the board.

The board of directors is expected to be comprised of active and former senior executives of major corporations and former senior executives of the U.S. military and individuals with business and academic experience in the defense industry and other fields. As such, they are expected to have a deep working knowledge of matters common to large companies, generally including experience with financial statement preparation, compensation determinations, regulatory compliance, corporate governance, public affairs and legal matters. Many of our directors are likely to serve on the boards of one or more other publicly owned companies. We believe the company benefits from the experience and expertise our directors gain from serving on those boards. We also believe for effective board governance and collaboration it is important to have Mr. Petters, our President and Chief Executive Officer, serve on the board.

Our non-employee directors are qualified to serve as directors and members of the committees on which they will serve based on the following experience:

Admiral Fargo’s experience with the Department of Defense and the U.S. Navy, and as an executive in the private sector, together with his experience as a member of the Northrop Grumman board of directors.

Dr. Bruner’s experience as the dean of a graduate school of business, as a financial economist and varied business and academic experience.

Mr. Davis’s experience in the U.S. House of Representatives, including on the Ways and Means Committee, the Budget Committee and the House Financial Services Committee, and varied public service and legal experience.

Ms. Kelly’s experience as a senior executive and general counsel of several large, publicly traded companies and varied business and legal experience.

Admiral Miller’s experience with the U.S. Navy, and as the chairman of an aerospace and defense company.

Mr. Schievelbein’s experience as the President and Chief Operating Officer of Northrop Grumman Newport News, together with his experience on the Northrop Grumman Corporate Policy Council.

Mr. von der Heyden’s experience on several boards of directors and boards of trustees and as a senior executive of large public companies, together with his varied business and finance experience.

Structure of the Board of Directors

Our board of directors will be divided into three classes that will be, as nearly as possible, of equal size. Each class of directors will be elected for a three-year term of office, and the terms are staggered so that the term of only one class of directors expires at each annual meeting. The terms of the Class I, Class II and Class III directors will expire in 2012, 2013 and 2014, respectively. The proposed Class I directors will include Mr. von der Heyden, Admiral Miller and Mr. Petters, the proposed Class II directors will include Admiral Fargo, Dr. Bruner and Mr. Davis and the proposed Class III directors will include Mr. Schievelbein and Ms. Kelly.

Committees of the Board of Directors

Following the spin-off, the standing committees of our board of directors will include an Audit Committee, a Compensation Committee and a Governance Committee, each as further described below. Following our listing on the NYSE and in accordance with the transition provisions of the rules of the NYSE applicable to companies listing in conjunction with a spin-off transaction, each of these committees will, by the date required by the rules of the NYSE, be composed exclusively of directors who are independent. Other committees may also be established by the board of directors from time to time.

Audit Committee. The members of the Audit Committee are expected to be Mr. von der Heyden (chair), Mr. Schievelbein and Dr. Bruner. The Audit Committee will have the responsibility, among other things, to meet
periodically with management and with both our independent auditor and internal auditor to review audit results and the adequacy of and compliance with our system of internal controls. In addition, the Audit Committee will appoint or discharge our independent auditor, and review and approve auditing services and permissible non-audit services to be provided by the independent auditor in order to evaluate the impact of undertaking such added services on the independence of the auditor. The responsibilities of the Audit Committee, which are anticipated to be substantially identical to the responsibilities of Northrop Grumman’s Audit Committee, will be more fully described in our Audit Committee charter. The Audit Committee charter will be posted on our website at www.huntingtoningalls.com and will be available in print to any stockholder that requests it. By the date required by the transition provisions of the rules of the NYSE, all members of the Audit Committee will be independent and financially literate. Further, the board of directors has determined that Mr. von der Heyden possesses accounting or related financial management expertise within the meaning of the NYSE listing standards and that he qualifies as an “audit committee financial expert” as defined under the applicable SEC rules.

**Compensation Committee.** The members of the Compensation Committee are expected to be Admiral Miller (chair) and Admiral Fargo. The Compensation Committee will oversee all compensation and benefit programs and actions that affect our elected officers. The Compensation Committee will also provide strategic direction for our overall compensation structure, policies and programs and will review top-management succession plans. The Compensation Committee will review and recommend to the board of directors the compensation of directors. The responsibilities of the Compensation Committee, which are anticipated to be substantially identical to the responsibilities of Northrop Grumman’s Compensation Committee, will be more fully described in the Compensation Committee charter. The Compensation Committee charter will be posted on our website at www.huntingtoningalls.com and will be available in print to any stockholder that requests it. Each member of the Compensation Committee will be a non-employee director, and there are no Compensation Committee interlocks involving any of the projected members of the Compensation Committee.

**Governance Committee.** The members of the Governance Committee are expected to be Ms. Kelly (chair), Mr. Davis and Admiral Fargo. The Governance Committee will be responsible for developing and recommending to the board of directors criteria for board membership; identifying and reviewing the qualifications of candidates for election to the board of directors; and assessing the contributions and independence of incumbent directors in determining whether to recommend them for reelection to the board of directors. The Governance Committee will also review and recommend action to the board of directors on matters concerning transactions with related persons and matters involving corporate governance and, in general, oversee the evaluation of the board of directors. The responsibilities of the Governance Committee, which are anticipated to be substantially identical to the responsibilities of Northrop Grumman’s Governance Committee, will be more fully described in the Governance Committee charter. The Governance Committee charter will be posted on our website at www.huntingtoningalls.com and will be available in print to any stockholder that requests it.

**Director Independence.** Our board of directors is expected to formally determine the independence of its directors following the spin-off. We expect that our board of directors will determine that the following directors, who are anticipated to be elected to our board of directors, are independent: Admiral Fargo, Dr. Bruner, Mr. Davis, Ms. Kelly, Admiral Miller, Mr. Schievelbein and Mr. von der Heyden. Our board of directors is expected to annually determine the independence of directors based on a review by the directors and the Governance Committee. In affirmatively determining whether a director is independent, the board of directors will determine whether each director meets the objective standards for independence set forth in the NYSE rules, which generally provide that:

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

- A director who receives, or whose immediate family member receives, more than $120,000 per year in direct compensation from the company, other than director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service) would not be independent until three years after ceasing to receive such amount.

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A director who is a partner of or employed by, or whose immediate family member is a partner of or employed by and personally works on the company’s audit, a present or former internal or external auditor of the company would not be independent until three years after the end of the affiliation or the employment or auditing relationship.

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

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

Compensation of Non-Employee Directors

Following the spin-off, director compensation will be determined by our board of directors with the assistance of its Compensation Committee. It is anticipated that such compensation will consist of an annual retainer, an annual equity award, annual fees for serving as a committee chair and other types of compensation as determined by the board from time to time.

Director Compensation Table

The following table sets forth information concerning the 2010 compensation awarded by Northrop Grumman to non-employee directors of Northrop Grumman who are expected to be non-employee directors of HII:

<table>
<thead>
<tr>
<th>Name</th>
<th>Fees Earned or Paid in Cash(1) ($)</th>
<th>Stock Awards(2) ($)</th>
<th>All Other Compensation ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas B. Fargo (3)(4)</td>
<td>122,500</td>
<td>120,000</td>
<td>—</td>
<td>242,500</td>
</tr>
<tr>
<td>Tom Schievelbein (5)</td>
<td>—</td>
<td>—</td>
<td>60,000</td>
<td>60,000</td>
</tr>
</tbody>
</table>

Footnotes:

(1) Effective October 1, 2008, non-employee directors of Northrop Grumman earned an annual retainer of $220,000, $100,000 of which was paid in cash and the remainder of which was required to be deferred into a stock unit account pursuant to the 1993 Stock Plan for Non-Employee Directors, as amended (the “1993 Directors Plan”). The other annual retainers were paid in cash as follows:

<table>
<thead>
<tr>
<th>Type of Retainer</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Committee Retainer</td>
<td>10,000</td>
</tr>
<tr>
<td>Audit Committee Chair Retainer</td>
<td>25,000</td>
</tr>
<tr>
<td>Compensation Committee Chair Retainer</td>
<td>10,000</td>
</tr>
<tr>
<td>Governance Committee Chair Retainer</td>
<td>10,000</td>
</tr>
<tr>
<td>Policy Committee Chair Retainer</td>
<td>7,500</td>
</tr>
<tr>
<td>Non-executive Chairman of the Board</td>
<td>250,000</td>
</tr>
<tr>
<td>Matching Gifts for Education Program</td>
<td>Match of $1 per $1 of director contributions, up to $10,000 per director, to eligible educational programs in accordance with the rules of the program</td>
</tr>
</tbody>
</table>

(2) Represents the target value of stock units awarded to each non-employee director of Northrop Grumman in 2010 under the 1993 Directors Plan. Of the $220,000 annual retainer earned by non-employee directors of Northrop Grumman, $120,000 was required to be deferred into a stock unit account (Automatic Stock Units) pursuant to the 1993 Directors Plan. Effective January 1, 2010, the amended 1993 Directors Plan provides that the Automatic Stock Units be paid at the conclusion of board service or earlier, as specified by the director, if he or she has more than five years of service. In addition, each director may defer payment of all or a portion of
his or her remaining board retainer fee and other annual committee fees, which are placed into a stock unit account (Elective Stock Units). The Elective Stock Units are paid at the conclusion of board service or earlier as specified by the director, regardless of years of service. All deferral elections must be made prior to the beginning of the year for which the retainer and fees will be paid. Directors are credited with dividend equivalents in connection with the shares of Common Stock until the shares are paid. The amount reported in this column for each director reflects the aggregate fair value on the date of grant, as determined under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Stock Compensation, of the stock units for each director, excluding any assumed forfeitures.

(3) In 2010, a matching contribution was made by the company’s Matching Gifts for Education Program on behalf of Admiral Fargo in the amount of $2,500.

(4) Admiral Fargo received an additional $10,000 for service on an Ad Hoc Committee of the Northrop Grumman board during 2010.

(5) Pursuant to an agreement with NGSB, renewable on an annual basis, in 2010 Mr. Schievelbein received payment for service as a consultant on issues related to the management of NGSB and its programs, specializing in shipbuilding, ship repair, ship overhaul and other defense matters. The agreement expired on December 31, 2010 and has not been renewed.

**Deferred Stock Units**

As of December 31, 2010, the non-employee directors of Northrop Grumman who are expected to be non-employee directors of HII had the following aggregate number of deferred stock units accumulated in their deferral accounts for all years of service as a director of Northrop Grumman, including additional stock units credited as a result of dividend equivalents earned on the stock units:

<table>
<thead>
<tr>
<th>Name</th>
<th>Mandatory Deferral</th>
<th>Additional Voluntary Deferral</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thomas B. Fargo</td>
<td>5,870</td>
<td>0</td>
<td>5,870</td>
</tr>
</tbody>
</table>
EXECUTIVE COMPENSATION

Prior to the spin-off, we were a subsidiary of Northrop Grumman; therefore, our historical compensation strategy has been primarily determined by Northrop Grumman’s senior management (“Northrop Grumman Management”) and the Compensation Committee of Northrop Grumman’s board of directors (the “Northrop Grumman Compensation Committee”) along with our senior management. Since the information presented in this document relates to our 2010 fiscal year, which ended on December 31, 2010, this Compensation Discussion and Analysis focuses primarily on our compensation programs and decisions with respect to 2010 and the processes used to determine 2010 compensation. The information in this section, including in the tables herein, is presented as of December 31, 2010 when Northrop Grumman was the relevant employer. In connection with the spin-off, we will be the relevant employer and will form our own Compensation Committee that will be responsible for our executive compensation programs prospectively, which may be different from the compensation programs in place for 2010.

This Compensation Discussion and Analysis is presented in the following sections:

Compensation Philosophy: describes the principles that formed the foundation of the compensation and benefits programs covering our executives in 2010.

Section I—Roles and Responsibilities: provides an overview of the roles and responsibilities of the Northrop Grumman Compensation Committee, Northrop Grumman Management, our senior management and other parties involved in determining compensation for our Named Executive Officers (“HII NEOs”) for 2010.

Section II—Elements of Compensation: provides more details on our main compensation elements for HII NEOs for 2010—salary, annual incentives (or bonus), long-term incentive compensation and other benefits.

Section III—Policies and Procedures: gives additional information on policies and procedures related to HII NEO compensation for 2010.

Compensation Philosophy

The following compensation principles were based on principles approved by the Northrop Grumman Compensation Committee and formed the basis of our Compensation Philosophy prior to the spin-off:

• Compensation programs were to be directly aligned with and reinforce stockholder interests, and accordingly had to be performance-based, transparent, defensible and designed to provide pay commensurate with company results. Compensation was designed to motivate and reward our management for delivering operational and strategic performance to maximize stockholder value and demonstrating our and Northrop Grumman’s values, behaviors, and leadership competencies.

• Compensation and benefits had to be competitive within the market to attract and retain key talent that drives the desired business results. Market data was utilized to appropriately determine competitive pay levels.

• A significant part of compensation was to be at risk based on financial and individual performance. The appropriate level of equity-related compensation linked to stockholder value was delivered through long-term incentives.

• Compensation was to be disclosed and explained in a transparent, understandable manner. Clear and concise goals were established to enable the assessment of performance by the Northrop Grumman Compensation Committee and by stockholders through the Compensation Discussion and Analysis.

• Compensation programs were to be consistent with financial objectives relative to our business conditions. Alignment to peer companies was considered when developing programs and goals; however, measures oriented to strongly improving business results will be the predominant factor.

• Successful accomplishment of business goals in both annual operating performance and the achievement of increased stockholder value were designed to produce significant individual rewards, and failure to attain business goals was designed to negatively affect the pay of our executives.
To promote alignment of management and stockholder interests, all officers were expected to meet stock ownership guidelines in the following denominations of base salary: our President was required to hold three times his base salary and the other HII NEOs were required to hold one and one-half times their salary.

The mix of long-term awards, selection of performance criteria and oversight of compensation programs, together with other programs such as stock ownership guidelines, were designed to mitigate excessive risk by emphasizing a long-term focus on compensation and financial performance.

The HII NEO compensation strategy was to be consistent in philosophy for all incentive plan participants to ensure proper alignment, accountability, and line of sight regarding commitments and priorities. For 2010, over 85% of our President’s pay, and over 70% of the other HII NEOs’ pay, was based on compensation at risk.

SECTION I

Roles and Responsibilities for 2010

Role of Northrop Grumman Management

Northrop Grumman has an annual compensation review process that has historically taken place during the first quarter each year where it determines regular base salary merit increases, annual bonuses and grants of long-term incentives through an annual review of all employees, including the HII NEOs. The purpose of this review process has been to measure individual performance over the course of the performance year against pre-set financial, operational and individual goals. The system has assisted in ensuring that each HII NEO’s compensation is tied to the financial and operating performance of the company, the HII NEO’s individual achievement and the HII NEO’s demonstration of Northrop Grumman’s strategic initiatives and values.

Throughout the year, our President provided recommendations regarding the compensation of the HII NEOs (other than our President) to Northrop Grumman Management for their review and approval. These recommendations were reviewed by Northrop Grumman’s Chief Human Resources Officer (“Northrop Grumman CHRO”) and included all compensation actions for our officers, including the HII NEOs (other than our President), as well as participation in the company’s various executive benefit and perquisite programs. The Northrop Grumman CHRO reviewed all compensation actions for our officers and then made a recommendation to the Northrop Grumman CEO for his review and approval. This was one of many inputs the Northrop Grumman CEO considered when reviewing compensation recommendations provided by our President. The Northrop Grumman CEO also took into account the leadership, performance, skills and industry knowledge of our officers when making his decision. The Northrop Grumman CEO could also seek additional input from an independent consultant or request additional market data from the Northrop Grumman CHRO to assist with the decision. The Northrop Grumman CEO approved all compensation actions taken with respect to our officers other than our President, whose compensation and benefits were approved by the Northrop Grumman Compensation Committee.

Northrop Grumman Management also provided recommendations to the Northrop Grumman Compensation Committee regarding compensation actions for our President along with all executive plan designs and strategies. These recommendations included financial goals and criteria for the annual and long-term incentive plans. Northrop Grumman Management provided its recommendations based on information gathered from consultants and the market as well as from internal resources, allowing designs and strategies to be tied directly to the needs of Northrop Grumman’s and the company’s businesses.

Compensation Decisions for HII NEOs

In February 2010, the Northrop Grumman Compensation Committee, acting pursuant to authority under its charter, reviewed and approved compensation recommendations for our President. These compensation actions included a salary increase from $575,000 to $750,000, an annual bonus payment of $350,000 for 2009, and a grant of long-term incentives that included a grant of 122,700 stock options and a grant of 29,000 Restricted Performance Stock Rights (“RPSRs”) for the 2010 through 2012 performance period. These recommendations were provided to the Northrop Grumman Compensation Committee by the Northrop Grumman CEO.
In conjunction with the annual compensation cycle in the first quarter described above, the Northrop Grumman CEO approved the compensation actions for the HII NEOs below our President level. These compensation actions included salary increases, bonus payouts, and grants of RPSRs.

All grants of long-term incentive awards made to our employees by Northrop Grumman were within the annual grant guidelines established by the Northrop Grumman Compensation Committee. The Northrop Grumman Compensation Committee also established performance criteria for all Northrop Grumman employees, including our executives, regarding performance targets for both the Annual Incentive Plan (“AIP”) and Northrop Grumman’s long-term incentive stock plan (“LTI”).

Independent Consultant

The Northrop Grumman Compensation Committee relied on Mr. George Paulin, Chairman and CEO of Frederic W. Cook & Co., Inc. (“F.W. Cook”), for guidance in determining the levels and structure of executive compensation including our President. The Northrop Grumman Compensation Committee also utilized competitive salary data provided to the Northrop Grumman Compensation Committee by F.W. Cook and by Aon Hewitt (formerly Hewitt Associates and referred to herein as “Hewitt”).

Mr. Paulin’s role included: advising the Northrop Grumman Compensation Committee on management proposals as requested; serving as a resource to the Northrop Grumman Compensation Committee Chair on setting agenda items for Committee meetings and undertaking special projects; reviewing Northrop Grumman’s total compensation philosophy, peer groups and target competitive positioning for reasonableness and appropriateness; identifying market trends or practices; and providing proactive counsel to the Northrop Grumman Compensation Committee on best practices for board governance of executive compensation as well as areas of concern or risk in Northrop Grumman’s executive compensation programs. Our executives historically participated in those programs in which Mr. Paulin advised the Northrop Grumman Compensation Committee. Mr. Paulin and F.W. Cook received no other compensation from Northrop Grumman or from us except in connection with Mr. Paulin’s role as an independent consultant to the Northrop Grumman Compensation Committee.

In addition to Mr. Paulin, Northrop Grumman Management also utilized consulting services from Hewitt to provide competitive market data on our officer positions. Hewitt also provided data to Mr. Paulin on behalf of the Northrop Grumman Compensation Committee on an annual basis.

Neither Mr. Paulin nor Hewitt determined compensation amounts or made decisions regarding compensation recommendations for HII NEOs and other executives.

Benchmarking

Although compensation paid to the HII NEOs was not rigorously tied to that paid by peer groups, the Northrop Grumman Compensation Committee and the Northrop Grumman CEO determined that in order to support the objective of attracting and retaining leading executive talent, its total compensation program (base salary, target annual incentive awards, target long-term incentive award values and benefits) should, in the aggregate, approximate the 50th percentile in the market.

To assess market levels of compensation for Northrop Grumman elected officers, Northrop Grumman Management collected compensation data from a Target Industry Peer Group and a General Industry Peer Group to perform annual analyses. These peer groups for 2010 are detailed below. The Northrop Grumman Compensation Committee has determined that these groups provide a reasonable and relevant comparison of market data.

Consistent with the Compensation Philosophy discussed above, in 2010 the Northrop Grumman Compensation Committee initiated a review of these peer groups previously established for benchmarking compensation of Northrop Grumman’s elected officers, including our President. This study, prepared for the Northrop Grumman Compensation Committee by Mr. Paulin of F.W. Cook, resulted in modifications to the Target Industry Peer Group. The group was expanded from 11 to 15 companies, and some companies in the existing peer group were replaced. The objective of these changes was to better approximate the competitive marketplace within which Northrop Grumman operates and competes for talent while enhancing Northrop Grumman’s ability to obtain market data upon which to evaluate executive compensation. The new group included six of the nine largest worldwide defense
contractors where comparable U.S. data was available and captured companies participating in Hewitt’s executive compensation survey. For 2010, the Target Industry Peer Group consisted of the following 15 companies:

<table>
<thead>
<tr>
<th>2010 Target Industry Peer Group (current)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3M Co.*</td>
</tr>
<tr>
<td>The Boeing Co.</td>
</tr>
<tr>
<td>Caterpillar, Inc.*</td>
</tr>
<tr>
<td>Emerson Electric Co.*</td>
</tr>
<tr>
<td>General Dynamics Corp.</td>
</tr>
<tr>
<td>Goodrich Corp.*</td>
</tr>
<tr>
<td>Honeywell International, Inc.</td>
</tr>
<tr>
<td>ITT Corp.*</td>
</tr>
<tr>
<td>Johnson Controls, Inc.*</td>
</tr>
<tr>
<td>L-3 Communications Holdings, Inc.*</td>
</tr>
<tr>
<td>Lockheed Martin Corp.</td>
</tr>
<tr>
<td>Raytheon Co.</td>
</tr>
<tr>
<td>SAIC, Inc.*</td>
</tr>
<tr>
<td>Textron, Inc.*</td>
</tr>
<tr>
<td>United Technologies Corp.</td>
</tr>
</tbody>
</table>

* Added in 2010

Historically, the composition of the General Industry Peer Group fluctuated from year to year based on participation in Hewitt’s executive compensation survey however the basic design remained consistent; Fortune 100 companies participating in the survey, excluding financial services organizations due to their unique pay models. For 2010, data was compiled from 47 organizations. The analysis included a review of data as reported in the survey (including the 25th, 50th, and 75th percentile information) and employed statistical analysis to assess market pay on an adjusted basis, as determined by revenue size.
For 2010, the General Industry Peer Group consisted of the following 47 companies:

### 2010 General Industry Peer Group

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbott Laboratories</td>
<td>Merck &amp; Co., Inc.</td>
</tr>
<tr>
<td>Aetna, Inc.</td>
<td>PepsiCo, Inc.</td>
</tr>
<tr>
<td>AT&amp;T, Inc.</td>
<td>Pfizer, Inc</td>
</tr>
<tr>
<td>Caterpillar, Inc.</td>
<td>Philip Morris International</td>
</tr>
<tr>
<td>Chevron Corporation</td>
<td>Procter &amp; Gamble</td>
</tr>
<tr>
<td>CHS, Inc.</td>
<td>Raytheon Company</td>
</tr>
<tr>
<td>Comcast Corporation</td>
<td>Sunoco, Inc.</td>
</tr>
<tr>
<td>CVS Corporation</td>
<td>SUPERVALU INC.</td>
</tr>
<tr>
<td>Delta Air Lines Inc.</td>
<td>Target Corporation</td>
</tr>
<tr>
<td>E. I. du Pont de Nemours and Company</td>
<td>The Boeing Company</td>
</tr>
<tr>
<td>FedEx Corporation</td>
<td>The Coca-Cola Company</td>
</tr>
<tr>
<td>Ford Motor Company</td>
<td>The Dow Chemical Company</td>
</tr>
<tr>
<td>General Dynamics Corporation</td>
<td>The Home Depot, Inc.</td>
</tr>
<tr>
<td>General Electric Company</td>
<td>The Kroger Co.</td>
</tr>
<tr>
<td>Honeywell International, Inc.</td>
<td>The Walt Disney Company</td>
</tr>
<tr>
<td>Humana, Inc.</td>
<td>Tyson Foods Incorporated</td>
</tr>
<tr>
<td>IBM Corporation</td>
<td>United Parcel Service</td>
</tr>
<tr>
<td>Ingram Micro, Inc.</td>
<td>United Technologies Corporation</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>UnitedHealth Group</td>
</tr>
<tr>
<td>Johnson Controls, Inc.</td>
<td>Valero Energy Corporation</td>
</tr>
<tr>
<td>Kraft Foods, Inc.</td>
<td>Verizon Communications, Inc.</td>
</tr>
<tr>
<td>Lockheed Martin Corporation</td>
<td>Walgreen Co.</td>
</tr>
<tr>
<td>Lowe's Companies, Inc.</td>
<td>Wellpoint, Inc.</td>
</tr>
<tr>
<td>Medco Health Solutions, Inc.</td>
<td></td>
</tr>
</tbody>
</table>

### Compensation for Our President

Hewitt provided an analysis of elected officers in the two peer groups compared to Northrop Grumman executives. This information was analyzed by F.W. Cook and presented to the Northrop Grumman Compensation Committee in December 2010. This study was used as a reference to make base salary, bonus and long-term incentive plan recommendations for the Northrop Grumman Compensation Committee to review and approve in February 2011. The Northrop Grumman CEO utilized this information to determine compensation for his direct reports, including our President. With respect to our President however, the Northrop Grumman CEO recommendation to the Northrop Grumman Compensation Committee was limited to an annual bonus (pertaining to the 2010 performance year). The recommendation for our President’s annual incentive award was approved by the Northrop Grumman Compensation Committee at their meeting on February 15, 2011.

In 2010, target total compensation was measured for Northrop Grumman elected officers, including our President. Target total compensation is comprised of base salary, target annual incentive awards, target long-term incentive award values and benefits. As an elected officer of Northrop Grumman, Mr. Petters’ target total compensation was measured each year as part of an annual review conducted by Hewitt and F. W. Cook.

Compared to the Target Industry Peer Group, Mr. Petters’ target total compensation was 34% above the size-adjusted median, and for the General Industry Peer Group his target total compensation was 28% above the size-adjusted median. Mr. Petters’ compensation levels reflect the value Northrop Grumman has placed on the knowledge, skills and experience that he has brought to his role overseeing the Shipbuilding sector. In addition, Northrop Grumman has placed value on internal peer comparisons and equity in terms of Mr. Petters’ job scope and responsibilities.
Compensation for HII NEOs

Northrop Grumman Management had available extensive information on competitive market practices. The primary source of survey information that Northrop Grumman Management relied upon was provided by Hewitt and typically focused on companies in the heavy manufacturing industry with annual revenues similar, in Northrop Grumman Management’s judgment, to our annual revenue. Northrop Grumman Management, including the Northrop Grumman CEO, utilized this information when reviewing compensation information for all officers, including the HII NEOs.

To evaluate competitive pay levels in the marketplace, both the Northrop Grumman Compensation Committee and the Northrop Grumman CEO reviewed data reported from F.W. Cook and Hewitt for our President. The Northrop Grumman CEO reviewed data from Hewitt and SIRS Executive surveys from ORC Worldwide/Mercer for the remaining HII NEOs, including the 25th, 50th, and 75th percentile information. Where appropriate, the data presented to the Northrop Grumman Compensation Committee and the Northrop Grumman CEO also used statistical analysis of the applicable peer group to predict market pay levels based on revenue size.

Each of our executive positions that could be compared to relevant peer data was benchmarked to the relevant data. Executive positions that were unique to us and could not be benchmarked to the market were compared internally based on their relative duties and responsibilities. HII NEOs were matched to the Hewitt or SIRS benchmark positions, considering revenue size of the business unit for base salary, annual bonus and long-term incentives. Once the survey results were released, the matches were confirmed and the market data was extracted for use in determining annual salary, bonus and long-term incentive recommendations. In 2010, total direct compensation (base salary, annual bonus, long-term incentives) was measured for the remaining HII NEOs and their compensation levels ranged from 11% to 20% above the 50th percentile of the applicable survey results; Ms. Niland, 11%; Mr. Edenzon, 11%; Mr. Mulherin, 11%; Mr. Ermatinger, 20%.

Risk Assessment

During the fourth quarter of 2009 the Northrop Grumman board of directors oversaw an internal assessment of Northrop Grumman’s risk profile, including the potential risk posed by the compensation programs in which our employees participated. This was followed by a risk assessment of Northrop Grumman’s executive compensation programs in the first quarter of 2010, performed by the Northrop Grumman Compensation Committee’s compensation consultant, Mr. Paulin of F.W. Cook. As a part of these risk assessments, the following were determined:

• the board and the Northrop Grumman Compensation Committee exercise close oversight over the performance measures utilized by the annual and long-term incentive plans, both of which serve to drive long-term performance and enhance stockholder value;
• the performance objectives of the plans are linked such that achievement of annual incentive plan measures serves to enhance long-term performance of Northrop Grumman and the company while also supporting the goals established for the long-term incentive plan; and
• the connection of performance metrics between the annual and long-term plans incentivizes long-term performance over short-term gain. Moreover, in addition to other risk-mitigating features incorporated into Northrop Grumman’s compensation programs such as holding-period requirements, stock ownership guidelines and a compensation recoupment policy, Northrop Grumman relies upon a rigorous system of internal controls to prevent any individual employee from creating adverse material risk in pursuit of an annual or long-term award.
## Elements of Compensation

The compensation elements for the HII NEOs for fiscal 2010 are summarized in the table below and then described in more detail following the table.

<table>
<thead>
<tr>
<th>Element of Compensation</th>
<th>Objectives</th>
<th>If Variable, Performance Measured</th>
<th>Cash or Equity</th>
</tr>
</thead>
</table>
| Salaries                | • targeted at a competitive market median on a job-by-job basis  
                          • adjusted above or below median based on executive’s experience, skills and sustained performance  
                          • served to recruit and retain the talent necessary to run our businesses | Not variable | Cash |
| Annual Incentive        | • designed to motivate executives to attain vital short-term goals  
                          • intended to provide a competitive level of compensation when the individual and the company achieve the approved performance objectives  
                          • tying the annual incentive directly to financial performance provided the most effective alignment with stockholder interests | Variable, based on our and Northrop Grumman’s performance for all executives other than our President, which is based solely on Northrop Grumman performance, and adjusted for individual performance 2010 performance criteria were the following:  
                          • new business awards  
                          • pension-adjusted operating margin  
                          • free cash flow conversion before discretionary pension funding  
                          • non-financial performance goals | Cash |
<p>| Long-Term Incentives    | • for 2010, long-term incentives granted to our President in the form of Northrop Grumman stock options (50%) and Northrop Grumman Restricted Performance Stock Rights (50%); to the other HII NEOs in the form of Northrop Grumman Restricted Performance Stock Rights (100%) | See below | Equity |</p>
<table>
<thead>
<tr>
<th>Element of Compensation</th>
<th>Objectives</th>
<th>If Variable, Performance Measured</th>
<th>Cash or Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Options</td>
<td>• provided direct alignment with stockholder interest while serving as a retention tool</td>
<td>Variable, based on Northrop Grumman stock price</td>
<td>Equity</td>
</tr>
<tr>
<td>Restricted Performance Stock Rights</td>
<td>• designed to establish a long-term performance perspective for the executives</td>
<td>Variable, based on:</td>
<td>Equity</td>
</tr>
<tr>
<td></td>
<td>• stock-based arrangement to create stockholder-managers interested in Northrop Grumman’s sustained growth and prosperity</td>
<td>• pension-adjusted operating margin</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• pension-adjusted return on net assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• for our President, performance is measured in terms of Northrop Grumman stock price only (3 year total shareholder return)</td>
<td></td>
</tr>
<tr>
<td>Other Benefits</td>
<td>• supplemental retirement, savings, medical and severance plans consistent with industry practice</td>
<td>Not variable</td>
<td>Cash</td>
</tr>
</tbody>
</table>

Salaries

Base salaries of the HII NEOs were targeted at a competitive market median on a job-by-job basis with individual variations explained by differences in each incumbent’s experience, skills, and sustained performance. Internal pay relationships and equitability were also considered. The Northrop Grumman Compensation Committee reviewed and approved our President’s salary and the Northrop Grumman CEO reviewed and approved the other HII NEOs’ salaries, based on recommendations from our President, on an annual basis, or at the time of promotion or a substantial change in responsibilities, and made adjustments as needed based on the Compensation Philosophy described above.

In February 2010, the Northrop Grumman Compensation Committee approved base salary increases for certain sector presidents, including Mr. Petters, whose base salary was raised from $575,000 to $750,000. This action was taken to more closely align the sector presidents in terms of internal equity since the scope of job responsibilities is very similar.

Annual Incentives

Under the Northrop Grumman Annual Incentive Plan, the Northrop Grumman Compensation Committee approved annual incentive compensation targets for our President and the Northrop Grumman CEO approved the annual incentive compensation targets for the other HII NEOs. The incentive compensation targets were determined for each position based on market prevalence, individual job level, scope and overall influence on the business results. The Northrop Grumman Compensation Committee and the Northrop Grumman CEO considered both the recommendations of consultants and those of Northrop Grumman Management and our senior management in determining appropriate annual incentive target levels. The target incentive award (“Target Bonus”) represented a percentage of each executive’s base salary and, after the year ended, provided a basis upon which a final award amount was determined by the Northrop Grumman Compensation Committee and the Northrop Grumman CEO based on an assessment of the financial performance against predetermined performance criteria and individual performance.
The annual incentive targets below were established for the HII NEOs:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Target Payout %</th>
<th>Payout Range % of Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>President and Chief Executive Officer</td>
<td>75%</td>
<td>0%—150%</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>Vice President and Chief Financial Officer</td>
<td>40%</td>
<td>0%—80%</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td>45%</td>
<td>0%—90%</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>Vice President and General Manager—Newport News Operations</td>
<td>45%</td>
<td>0%—90%</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Vice President and Chief Human Resources Officer</td>
<td>40%</td>
<td>0%—80%</td>
</tr>
</tbody>
</table>

For 2010, our President’s bonus was evaluated based on the Northrop Grumman Company Performance Factor (“CPF”) and an Individual Performance Factor (“IPF”). For the remaining HII NEOs, bonuses were evaluated based on the Northrop Grumman Company Performance Factor, our Sector Performance Factor (“SPF”), and an IPF. Within the annual incentive formula described below, the CPF and SPF were weighted equally (50% each) and could range from 0% to 200%. The IPF could range 0-125%. Final bonus award payments were capped at 200% of an individual’s target bonus.

**Annual incentive formula for 2010:**

Base Salary \( \times \) Target \( \% \) = Target Bonus

Target Bonus \( \times \) CPF \( \times \) IPF = Final Bonus Award*

* For elected officers including our President, as a member of Northrop Grumman’s Corporate Policy Council, the CPF within the formula is weighted 100% on Northrop Grumman company performance. For the other NEOs, the CPF equals Final Company Financial Metric (50%) plus Final Sector Score (50%). The Final Sector Score is comprised of sector level performance of the same financial and non-financial metrics explained below.

At the conclusion of the calendar year, an annual performance evaluation for each HII NEO, other than our President, was conducted by the Northrop Grumman CEO who reviewed and approved the IPFs for those HII NEOs. The IPF was determined based upon consideration of the following factors:

- Financial performance
- Performance on non-financial goals, including company-level goals and specific operating factors
- Strategic leadership and vision
- Program execution and performance
- Customer relationships
- Peer and employee relationships

The Northrop Grumman CEO and Northrop Grumman Compensation Committee reviewed all performance information, as well as the comparison to market data, and approved bonus amounts. As previously noted, the Northrop Grumman CEO approved bonus amounts for all HII NEOs (other than our President) and the Northrop Grumman Compensation Committee approved our President’s final bonus amount. The Northrop Grumman Compensation Committee approved the final financial performance factors (CPF and SPF) that were used to determine the annual incentive payout. The Northrop Grumman Compensation Committee also has full discretion to make adjustments to the CPF and/or SPF if it determines such adjustment is warranted. For example, in instances where our performance has been impacted by material, unusual or non-recurring gains and losses, changes in law, regulations or in generally accepted accounting principles, accounting charges or other extraordinary events not
foreseen at the time the targets were set. The Northrop Grumman Compensation Committee has also adjusted payouts downward in the past despite performance targets having been met when it determined circumstances existed that had a negative impact on us and they were not reflected in the performance calculation. Actual adjustments for 2010 are described below.

2010 Annual Incentive Goals and Results

For the 2010 performance year, the Northrop Grumman Compensation Committee determined that the evaluation of Northrop Grumman performance would be based on achievement of both financial and non-financial metric goals. The final Northrop Grumman CPF equaled the financial metric score multiplied by the assessment for the non-financial metrics which were scored in the range of 80% to 120%. The Northrop Grumman Compensation Committee assessed non-financial performance with a recommendation from the Northrop Grumman CEO.

The three Northrop Grumman financial metrics focused on capturing new business awards, expanding the current pension-adjusted operating margin rate and on free cash flow conversion (calculated as free cash flow before discretionary pension funding divided by net income). The six Northrop Grumman non-financial metrics were customer satisfaction, diversity, engagement (attrition), environmental, quality and safety, measured as follows:

- **Customer Satisfaction**—measured in terms of feedback received from customers including customer generated performance scores, award fees, as well as verbal and written feedback. For example, Department of Defense contracts that meet certain thresholds are required to provide feedback through the Contractor Performance Assessment Reporting System.
- **Diversity**—measured in terms of improving representation of females and people of color in mid-level and senior-level management positions with respect to peer benchmarks.
- **Engagement (attrition)**—measured in terms of voluntary attrition, which is an indicator of engagement levels within an organization as companies with high employee engagement retain a more motivated and productive workforce.
- **Environmental**—measured in terms of the reduction, in metric tons, of greenhouse gases emissions.
- **Quality**—measured using program-specific objectives available within each of Northrop Grumman’s sectors. This metric integrates available measures of quality including defect rates, process quality, supplier quality, planning quality and other appropriate criteria for program type and phase.
- **Safety**—measured by Total Case Rate, and defined as the number of OSHA recordable injuries (any medical treatment requiring more than first aid) per 100 full-time employees.

The score for operating margin is adjusted based upon the amount of earnings charges recorded for the year. The adjustment can increase the score by a maximum of five percentage points if the actual operating margin rate is equal to or above target and minimal charges are recorded or decrease the score by up to five percentage points if significant charges are recorded and the target operating margin rate is not achieved. Each financial metric/goal is described below and shown with its relative weighting.

### Northrop Grumman Financial Goals that were Applicable to our President

<table>
<thead>
<tr>
<th>Metric/Goal</th>
<th>Weighting</th>
<th>Threshold Performance</th>
<th>Target Performance</th>
<th>Maximum Performance</th>
<th>2010 Actual Performance (as adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Business Awards (Amounts in Billions)</td>
<td>20%</td>
<td>$27.0</td>
<td>$30.0</td>
<td>$37.0</td>
<td>$31.8</td>
</tr>
<tr>
<td>Pension-Adjusted Operating Margin Rate*</td>
<td>40%</td>
<td>8.0%</td>
<td>9.0%</td>
<td>10.0%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Free Cash Flow Conversion</td>
<td>40%</td>
<td>80%</td>
<td>100%</td>
<td>135%</td>
<td>119%</td>
</tr>
</tbody>
</table>

* This goal is adjusted for net FAS/CAS pension expense.
For 2010, the Northrop Grumman Compensation Committee used its discretion to adjust the financial metric scores for four unusual, non-recurring items: financial impacts resulting from the shipbuilding strategic actions; IRS tax settlement for years 2004 through 2006; cash tender offer for Northrop Grumman debt securities; and the purchase of the new headquarters facility in Virginia. Three of the adjustments increased the score and one of the adjustments decreased the score.

After adjusting for the four unusual items described above, the Northrop Grumman adjusted financial performance score was 142%. For non-financial metrics, the calculated score was 107%. After incorporating performance on the three financial metrics and six non-financial metrics, the final CPF for Northrop Grumman was 152%. Based on an overall assessment of performance at Northrop Grumman, the Northrop Grumman CEO recommended to the Northrop Grumman Compensation Committee a company performance score of 150%. After reviewing Northrop Grumman’s overall performance, the Northrop Grumman Compensation Committee approved a final CPF of 150%.

Northrop Grumman non-financial goals applicable to our President were based on Company-level performance, including customer satisfaction, diversity, engagement (attrition), environmental, quality and safety, as described above. Based on an assessment of the adjusted company-level financial performance, the company-level non-financial performance metrics, and his individual performance factor, the Northrop Grumman Compensation Committee determined a score of 161% for our President for 2010. The calculation resulted in an annual incentive payout of $900,000 for the 2010 performance year.

### Financial Goals that were Applicable to the Remaining HII NEOs

<table>
<thead>
<tr>
<th>Metric/Goal</th>
<th>Weighting</th>
<th>Threshold Performance</th>
<th>Target Performance</th>
<th>Maximum Performance</th>
<th>2010 Actual Performance (as adjusted)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Business Awards (Amounts in Billions)</td>
<td>20%</td>
<td>$3.4</td>
<td>$3.8</td>
<td>$4.6</td>
<td>$5.4</td>
</tr>
<tr>
<td>Operating Margin Rate</td>
<td>40%</td>
<td>5.9%</td>
<td>6.9%</td>
<td>7.9%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Free Cash Flow Conversion*</td>
<td>40%</td>
<td>50%</td>
<td>65%</td>
<td>85%</td>
<td>92%</td>
</tr>
</tbody>
</table>

* Defined as free cash flow divided by operating margin where free cash flow is adjusted for net external interest expense and foreign tax and operating margin is adjusted for purchased intangible amortization and intersegment margin.

AIP scores for our NEOs other than our President are based on the HII Final AIP score times an individual performance factor, with the HII Final AIP score based on the following calculation:

\[
\text{HII Final AIP Score} = 50\% \times (\text{Northrop Grumman financial metric score}) + 50\% \times (\text{HII score})
\]

\[
\text{HII Score} = (\text{HII financial metric score}) \times (\text{HII non-financial metric score} + \text{HII operating factor (range of 80 — 120%)})
\]

Within the annual incentive formula for the HII score, the operating factor is based on our performance as measured against a set of pre-approved HII specific objectives that consist of the following priorities: HII improvement projects, human capital, achieving first time quality, supply chain management, facilities and technology, and financial predictability. Consistent with the calculation of the Northrop Grumman financial metric score, our operating margin score is adjusted based upon the amount of HII earnings charges taken during the year. The HII non-financial metrics are the same as those for the company described above.

After adjusting for the Shipbuilding strategic actions (wind down of Shipbuilding activities in Avondale, Louisiana), the adjusted HII financial metric score was 150%. The combined assessment for the non-financial metrics and HII specific objectives was 118%, resulting in a HII score of 177%. A final HII AIP score of 160% was calculated by taking 50% of the company financial metric score (142%) and 50% of the HII score (177%). For 2010, the Compensation Committee accepted the CEO’s recommendation that the HII Final AIP score be set at 160%, including an adjustment to the HII financial metrics for non-recurring strategic actions in Shipbuilding, and recognizing the success of the HII team in addressing the non-financial goals in Shipbuilding.
Details on the range of bonuses that could have been payable based on 2010 performance are provided in the Grants of Plan-Based Awards table. Actual bonus payouts for 2010 performance are provided in the Summary Compensation Table.

Long-Term Incentive Compensation

2010 Stock Option and Restricted Performance Stock Right Award

During 2010, each of the HII NEOs was granted long-term incentive awards in the form of Northrop Grumman equity grants. With respect to the amount of long-term incentive awards granted to the HII NEOs in 2010, the Northrop Grumman Compensation Committee determined the target award value for our President, and the Northrop Grumman CEO determined the target award values for the other HII NEOs based on the market analysis discussed in this Compensation Discussion and Analysis, applying value-based guidelines which focus on the value delivered versus the number of shares delivered (share-based guidelines). The Northrop Grumman Compensation Committee and Northrop Grumman CEO believes that value-based guidelines more effectively allow for the delivery of target opportunities that are consistent with median awards given to individuals holding comparable positions at peer companies.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Target Value (% of Base Salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>President and Chief Executive Officer</td>
<td>248%</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>Vice President and Chief Financial Officer</td>
<td>114%</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td>122%</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>Vice President and General Manager—Newport News Operations</td>
<td>122%</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Vice President and Chief Human Resources Officer</td>
<td>83%</td>
</tr>
</tbody>
</table>

In 2010, the Northrop Grumman Compensation Committee granted 50% of the target value in the form of stock options and 50% in the form of RPSRs to our President. The Northrop Grumman Compensation Committee believes it is important to utilize performance-based units such as RPSRs in combination with stock options, as this long-term incentive combination focuses on creating stockholder value. Stock options granted to our President in 2010 vest in three annual installments of 33% each, becoming fully vested after three years, and expiring after seven years. For the other NEOs, the Northrop Grumman CEO approved awards 100% in the form of RPSRs.

The Northrop Grumman Compensation Committee evaluates RPSR performance requirements each year to ensure they are aligned with Northrop Grumman’s objectives. For the 2010 grant, the Northrop Grumman Compensation Committee reviewed the performance metrics with management and determined that for elected officers of Northrop Grumman, including our President, performance would be measured in terms of relative Total Shareholder Return (“TSR”). TSR is measured by comparing Northrop Grumman share performance over a three-year period to the performance of top aerospace and defense companies in the United States and Europe, and to the S&P Industrials Index which comprises companies within the S&P 500 classified as Industrials.

For the other HII NEOs, financial performance would be measured based on the Return On Net Assets (“RONA”) adjusted for pension benefits and the pension-adjusted operating margin rate achieved at the end of the three-year period. Final performance determination is an equally weighted sum of RONA and pension-adjusted operating margin rate results. Target performance is based upon achieving a RONA of 14% and achieving a pension-adjusted operating margin rate of 10% at the end of 2012.

Shares that ultimately are vested and paid out under an RPSR award to the executive can vary from 0% to 200% of the original number of shares granted. RPSR awards may be paid in shares, cash or a combination of shares and cash. Dividends are not paid or earned on RPSR awards. More details on the 2010 stock option and RPSR grants to the President and HII NEOs are provided in the Grants of Plan-Based Awards Table.
Recently Completed RPSR Performance Period (2008 — 2010)

During the first quarter of each year, the Northrop Grumman Compensation Committee reviews Northrop Grumman’s financial performance achievement against established goals to determine payout multiples for RPSRs with a performance period that ended in the prior year. The Northrop Grumman Compensation Committee has authority to make adjustments to the payout multiple if it determines such adjustment is warranted. For example, in instances where our performance has been impacted by material, unusual or non-recurring gains and losses, changes in law, regulations or in generally accepted accounting principles, accounting charges or other extraordinary events not foreseen at the time the targets were set, the Northrop Grumman Compensation Committee has used discretion in the past to modify the final awards. Individual performance is not relevant to the amount of the final payout of RPSRs.

At the February 15, 2011 meeting, the Northrop Grumman Compensation Committee reviewed performance for the January 1, 2008 to December 31, 2010 RPSR performance period. The final award for this grant of RPSRs was based on an equally weighted sum of RONA and cumulative, pension-adjusted, operating margin.

The amount of cumulative pension adjusted operating margin over the three year period was less than the threshold amount, resulting in a score of 0%, primarily because of the $3.1 billion goodwill impairment charge taken in 2008. RONA exceeded the maximum amount, resulting in a score of 200%. Based on equal weighting for each metric, the final performance for the 2008 grant was determined to be 100%.

Retention Grants for Key Employees

In January 2011, the Northrop Grumman Compensation Committee approved, for recommendation to the HII board of directors, special long-term incentive stock grants in the form of restricted stock rights (“RSRs”) for the HII NEOs, including our President. These grants are contingent upon the completion of the spin-off. The purpose of these grants is to ensure overall business continuity and a successful transition from Northrop Grumman to Huntington Ingalls Industries. The HII NEOs will be granted RSRs with the following approximate values on the date of grant: Mr. Petters, $2,500,000; Ms. Niland, $1,000,000; Mr. Edenzon, $1,000,000; Mr. Mulherin, $1,000,000; Mr. Ermatinger, $750,000. These grants will be made in HII shares upon the date of the distribution, with the number of shares based on the closing price on that date, and will vest 100% after three years.

Treatment of Long-Term Incentive Awards Following the Spin-Off

In connection with the spin-off, HII will establish an equity incentive plan to provide for awards with respect to shares of HII’s common stock. At the time of the distribution, the exercise price of and number of shares subject to any outstanding option to purchase Northrop Grumman stock, as well as the number of shares subject to any RPSRs, RSRs or other Northrop Grumman equity award, held by HII’s current and former employees on the distribution date will be adjusted to reflect the value of the distribution such that the intrinsic value of such awards at the time of separation is held constant. The performance of each award will be determined as of December 31, 2010 and fixed with a payout during the normal cycle in shares of HII stock at the end of the performance period. The awards will continue under HII for the remaining portion of each respective performance period. In addition, existing performance criteria applicable to such awards will be modified appropriately to reflect the spin-off such that the remaining portion of each grant will be based on HII performance metrics. The equity awards held by the HII NEOs will be adjusted in the same manner as the awards held by our other current and former employees.

Other Benefits

This section describes the other benefits HII NEOs received in 2010. These benefits were non-performance related and were designed to provide a market competitive package for purposes of attracting and retaining the executive talent needed to achieve our business objectives. These included benefits under broad-based retirement plans, as well as supplemental executive benefits provided in addition to those provided to all other employees. These supplemental benefits included supplemental pension plans, enhanced health and welfare benefits and the Special Officers Retiree Medical Plan (“SORMP”) for our President offered at retirement.
Defined Benefit Retirement Plans

Northrop Grumman maintains tax-qualified defined benefit plans that covered the HII NEOs and the majority of our workforce. Compensation, age and service factor into the amount of the benefits provided under the plans. Thus, the plans were structured to reward and retain employees of long service and to recognize higher performance levels as evidenced by increases in annual pay.

Northrop Grumman maintains supplemental defined benefit plans that covered the HII NEOs. These plans (1) provided benefits that would have been provided under the tax-qualified plans but for limitations imposed by the Internal Revenue Code and (2) provided larger accruals for elected and appointed officers in recognition of the higher levels of responsibility for such executives. Such benefits are common in the aerospace and defense industry.

Although benefits were paid from different plans due to plan and legal requirements, Northrop Grumman imposed an overall cap on all the pension benefits which included the HII NEOs. Each officer’s total pension benefit under all pension plans combined was limited to no more than 60% of his or her final average pay. Additional information on these defined benefit retirement plans and the cap on officer pension benefits is provided in the Pension Benefits Table.

Defined Contribution Savings Plans

Northrop Grumman maintains tax-qualified retirement savings plans that covered the HII NEOs and the majority of our workforce. Participating employees contributed amounts from their pay to the plans, and Northrop Grumman generally provides a matching contribution.

Northrop Grumman maintains two supplemental savings plans that covered all eligible employees, including the HII NEOs. The Savings Excess Plan allowed the HII NEOs and all other eligible employees to defer compensation beyond the limits of the tax-qualified plans and receive a matching contribution. The HII NEOs and all other eligible employees could also defer compensation under the Deferred Compensation Plan. No match was provided under the Deferred Compensation Plan, which was closed to new contributions as of December 31, 2010.

Additional information about the Savings Excess and Deferred Compensation Plans is provided in the Nonqualified Deferred Compensation Table.

Special Officer Retiree Medical Plan (“SORMP”)

The SORMP was closed to new participants in 2007. Only our President was a participant in the SORMP and was entitled to retiree medical benefits pursuant to the terms of the SORMP. The coverage was essentially a continuation of the executive medical benefits plus retiree life insurance. Additional information about the SORMP is provided in the Retiree Medical Arrangement section in the attached tables.

Perquisites

HII NEOs were eligible for certain executive perquisites which included financial planning, income tax preparation, physical exams and personal liability insurance. While almost all other executive perquisites have been eliminated, the perquisites that remained were the most common within the marketplace and were viewed as an important component of our total compensation package. On an annual basis, Northrop Grumman Management and the Northrop Grumman Compensation Committee reviewed both perquisites and benefits for companies participating in the Aon Hewitt market-based database.

Use of Northrop Grumman Aircraft

Our President was able to utilize Northrop Grumman aircraft for business and personal travel. Throughout the year, if any HII NEO used Northrop Grumman aircraft for personal travel, the costs for such travel were imputed as income and subject to the appropriate tax reporting according to IRS regulations and this benefit was not grossed up.
Severance and Change-in-Control Benefits

Northrop Grumman has an established severance plan for elected and appointed officers. Prior to December 31, 2010, Northrop Grumman also maintained a change-in-control Special Agreement for certain elected officers, including our President. During its March 2010 meeting, the Northrop Grumman Compensation Committee approved the termination of all change-in-control agreements and plans at Northrop Grumman as of December 31, 2010, including the Special Agreement previously in effect for our President.

The severance plan provided compensation and benefits for a reasonable period if participants are terminated.

Northrop Grumman’s Severance Plan for Elected and Appointed Officers was implemented in August 2003, and offers severance to officers who qualify and are approved to receive such treatment. Generally, executives are unemployed for a time period following a termination, and the purpose of the severance plan was to help bridge an executive’s income and health coverage during this period. Effective October 1, 2009, the Northrop Grumman Compensation Committee approved a modification to severance benefits for our President and reduced the severance benefits from two years of salary and bonus to eighteen months. All other HII NEOs were eligible for severance benefits equal to one year of base salary + target bonus. In general, these benefits were consistent with severance multiples and benefit continuation periods in the market. The severance benefits that are provided to the HII NEOs under the Northrop Grumman Severance Plan for Elected and Appointed Officers are the following:

**For our President**

- Lump sum cash payment = $1 1/2 x (Base Salary + Target Bonus)
- Continue to pay portion of medical & dental benefits for 18 months concurrent with COBRA coverage. The employee is responsible for his/her portion
- Outplacement assistance up to 1 year after termination
- Continued reimbursement of eligible financial planning expenses for the year of termination and the following year, up to a maximum of $15,000 per year

**For the HII NEOs**

- Lump sum cash payment = 1 x (Base Salary + Target Bonus)
- Continue to pay portion of medical & dental benefits for 12 months concurrent with COBRA coverage. The employee is responsible for his/her portion
- Outplacement assistance up to 1 year after termination
- Continued reimbursement of eligible financial planning expenses for the year of termination and the following year, up to a maximum of $5,000 per year

Additional information on the benefits provided under the severance plan is provided in the Severance/Change-in-Control section of the tables. None of the HII NEOs will be entitled to any severance benefits under the Northrop Grumman Severance Plan for Elected and Appointed Officers as a result of the spin-off.

SECTION III

Policies and Procedures

Tax Deductibility of Pay

Section 162(m) of the Internal Revenue Code generally limits the annual tax deduction to $1 million per person for compensation paid to a public company’s CEO and its next three highest-paid executive officers (other than the CFO). Qualifying performance-based compensation is not subject to the deduction limit. For 2010, none of the HII NEOs was within the group of Northrop Grumman executive officers that was subject to the Code Section 162(m) limitations. Following the spin-off, we intend to consider the application of the Code Section 162(m) limits. However, our compensation decisions will be made, among other things, to ensure market competitive rates are
 maintained and retention of critical executives is achieved. Sometimes these decisions may result in compensation amounts being non-deductible under Code Section 162(m).

Grant Date for Equity Awards

Historically, the annual grant cycle for stock options and other equity awards occurred at the same time as salary increases and annual incentive grants. This typically occurred in February each calendar year. This timing allowed management and the Northrop Grumman Compensation Committee and the Northrop Grumman CEO to make decisions on three compensation components at the same time, utilizing a total compensation perspective. The Northrop Grumman Compensation Committee and the Northrop Grumman CEO reviewed and approved long-term incentive grants in February and established the grant price for stock options on the date of the Northrop Grumman Compensation Committee meeting. The grant price was equal to the closing price of Northrop Grumman’s stock on the date of grant.

At its February 2010 meeting, the Northrop Grumman Compensation Committee reviewed and approved the long-term incentives for our President, and long-term incentives for the remaining HII NEOs were approved by the Northrop Grumman CEO under his delegation from the Northrop Grumman Compensation Committee. The 2010 grant was approved after the filing of Northrop Grumman’s Form 10-K for 2009 on February 9, 2010, as the Northrop Grumman Compensation Committee and Northrop Grumman CEO believe it is important to have the grant occur following the release of detailed financial information about the company. This approach allows for the stock price to be fully reflective of the market’s consideration of material information disclosed in Northrop Grumman’s Form 10-K.

Stock Ownership Guidelines

Northrop Grumman maintains stock ownership guidelines which apply to the HII NEOs. These guidelines are intended to further promote alignment of management and stockholder interests. These guidelines required that the HII NEOs and other officers own stock denominated as a multiple of their annual salaries which could be accumulated over a five-year period from the date of hire or promotion into an officer position.

The Stock Ownership guidelines were as follows:

- HII President: 3 x base salary
- Other HII NEOs: 1 1/2 x base salary

Shares that satisfy the stock ownership guidelines included:

- Stock owned outright by an officer
- Restricted Stock Rights, whether or not vested
- Value of equivalent shares held in the Northrop Grumman Savings Plan, the Northrop Grumman Financial Security and Savings Program and the Northrop Grumman Savings Excess Plan.

Stock options and unvested RPSRs were not included in calculating ownership until they were converted to actual shares owned.

During its September 2010 meeting, the Northrop Grumman Compensation Committee performed its annual review of the ownership of all elected officers including our President. The Northrop Grumman CEO performed a review of the stock ownership holdings of Northrop Grumman’s Appointed Officers; these included the remaining HII NEOs. Officers whose current stock ownership fell below certain thresholds were asked to provide a plan for achieving compliance. The Northrop Grumman Compensation Committee and the Northrop Grumman CEO were satisfied with the efforts of all officers to achieve compliance.

In September 2008, the Northrop Grumman Compensation Committee approved a stock trading program under SEC Rule 10b5-1 for purposes of more effectively managing insider sales of stock. The plan covered all the HII NEOs and other officers. An insider could establish a plan during any quarterly window period for the next window period. The duration of the plan was one year.
Executive Compensation Recoupment

Ethical behavior and integrity remain an important priority for the company leadership. In support of this, the Northrop Grumman Compensation Committee approved an executive compensation recoupment policy (also known as a “clawback” policy) at its December 2008 meeting that became effective in the first quarter of 2009, and was subsequently amended in March 2010. The policy applied to our NEOs and all other employees at the level of Vice President or higher. When first adopted, Northrop Grumman could recover annual and long-term incentive compensation when incentive payments had been based on financial results that were later restated due to misconduct.

In the first quarter of 2010, the Northrop Grumman Compensation Committee approved strengthening the policy to allow for the recovery of incentive compensation payments based on restated financial results regardless of whether misconduct was determined to have been the cause of the restatement. The Northrop Grumman Compensation Committee believed this broader definition governing the basis for incentive compensation recoupment would better serve shareholder interests and those of Northrop Grumman.

The Northrop Grumman Compensation Committee was responsible for investigating potential payments based on inaccurate financial results that were later restated, and determining whether any incentive payments are to be recovered.

Stock Holding Requirement

Effective with February 2010 awards, Northrop Grumman implemented a new stock holding policy for elected and appointed officers further emphasizing the importance of sustainable performance and appropriate risk management behaviors. This new policy worked in conjunction with the stock ownership requirements and required all officers (Corporate Policy Council members and vice presidents) to hold, for a period of three years, 50% of the net shares (after taxes) received from RPSR payouts and stock option exercises. This change was effective with the 2010 grants and for grants made in subsequent years. Grants to employees prior to 2010 are not subject to these holding requirements. These holding requirements will generally continue upon termination and retirement for a one-year period after separation from the company, affecting any stock vesting or option exercises in that one-year period. Stock vesting or options exercised after the one-year anniversary of retirement or termination will not be subject to the holding requirement.
### 2010 Summary Compensation Table

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Year</th>
<th>Salary ($)</th>
<th>Bonus ($)</th>
<th>Stock Awards ($)</th>
<th>Option Awards ($)</th>
<th>Non-Equity Incentive Plan Compensation ($)</th>
<th>Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)</th>
<th>All Other Compensation ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>2010</td>
<td>716,346</td>
<td>0</td>
<td>2,208,350</td>
<td>1,400,034</td>
<td>900,000</td>
<td>434,140</td>
<td>62,009</td>
<td>5,720,879</td>
</tr>
<tr>
<td>President and Chief</td>
<td>2009</td>
<td>572,788</td>
<td>0</td>
<td>1,490,069</td>
<td>861,877</td>
<td>350,000</td>
<td>593,065</td>
<td>76,789</td>
<td>3,944,588</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>2008</td>
<td>566,827</td>
<td>0</td>
<td>2,379,608</td>
<td>946,494</td>
<td>303,750</td>
<td>490,672</td>
<td>73,803</td>
<td>5,061,154</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>2010</td>
<td>332,875</td>
<td>0</td>
<td>1,043,265</td>
<td>0</td>
<td>267,800</td>
<td>545,065</td>
<td>76,789</td>
<td>2,145,669</td>
</tr>
<tr>
<td>Vice President and Chief</td>
<td>2009</td>
<td>312,115</td>
<td>0</td>
<td>920,387</td>
<td>0</td>
<td>110,000</td>
<td>376,775</td>
<td>69,391</td>
<td>1,957,519</td>
</tr>
<tr>
<td>Financial Officer</td>
<td>2008</td>
<td>297,019</td>
<td>0</td>
<td>652,775</td>
<td>0</td>
<td>174,100</td>
<td>376,775</td>
<td>76,442</td>
<td>1,577,311</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>2010</td>
<td>368,723</td>
<td>0</td>
<td>1,264,864</td>
<td>0</td>
<td>306,798</td>
<td>215,018</td>
<td>53,186</td>
<td>2,208,571</td>
</tr>
<tr>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td>2009</td>
<td>347,115</td>
<td>0</td>
<td>1,051,902</td>
<td>0</td>
<td>140,000</td>
<td>340,778</td>
<td>60,144</td>
<td>1,991,898</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>322,231</td>
<td>0</td>
<td>606,210</td>
<td>0</td>
<td>199,200</td>
<td>266,050</td>
<td>101,649</td>
<td>1,495,340</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>2010</td>
<td>368,723</td>
<td>0</td>
<td>1,264,864</td>
<td>0</td>
<td>306,798</td>
<td>243,700</td>
<td>62,712</td>
<td>2,246,797</td>
</tr>
<tr>
<td>Vice President and General Manager—Newport News Operations</td>
<td>2009</td>
<td>347,115</td>
<td>0</td>
<td>1,051,902</td>
<td>0</td>
<td>140,000</td>
<td>273,116</td>
<td>73,855</td>
<td>1,937,977</td>
</tr>
<tr>
<td></td>
<td>2008</td>
<td>328,040</td>
<td>0</td>
<td>652,775</td>
<td>0</td>
<td>199,200</td>
<td>216,647</td>
<td>75,601</td>
<td>1,472,263</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>2010</td>
<td>286,017</td>
<td>0</td>
<td>664,874</td>
<td>0</td>
<td>207,088</td>
<td>256,136</td>
<td>57,304</td>
<td>1,471,419</td>
</tr>
<tr>
<td>Vice President and Chief</td>
<td>2009</td>
<td>267,471</td>
<td>0</td>
<td>676,603</td>
<td>0</td>
<td>90,900</td>
<td>309,090</td>
<td>75,247</td>
<td>1,413,030</td>
</tr>
<tr>
<td>Human Resources Officer</td>
<td>2008</td>
<td>257,500</td>
<td>0</td>
<td>388,171</td>
<td>0</td>
<td>124,500</td>
<td>256,791</td>
<td>75,263</td>
<td>1,102,225</td>
</tr>
</tbody>
</table>

**Footnotes:**

1. The amounts in this column include amounts deferred under the savings and nonqualified deferred compensation plans.
2. The dollar value shown in these columns is equal to the grant-date fair value of equity awards made during the year. For assumptions used in calculating these numbers, see Footnote 4 on the Grants of Plan-Based Awards table. Amounts for 2008 have been adjusted to reflect expected performance on date of grant. The maximum grant date value (200%) of 2010 stock awards for each NEO is listed below:
   - C. Michael Petters $3,454,480
   - Barbara A. Niland $1,605,023
   - Irwin F. Edenzon $1,945,944
   - Matthew J. Mulherin $1,945,944
   - William R. Ermatinger $1,022,883
3. For 2009 and 2008, these amounts were paid under Northrop Grumman’s annual bonus plan based on performance achieved during the prior year, as described in the Compensation Discussion and Analysis. 2010 bonus information was approved by the Northrop Grumman Compensation Committee on February 15, 2011. The amounts in this column include amounts deferred under the savings and nonqualified deferred compensation plans.
4. There were no above-market earnings in the nonqualified deferred compensation plans (see the description of these plans under the Nonqualified Deferred Compensation table). The amounts in this column relate solely to the increased present value of the executive’s pension plan benefits (see the description of these plans under the Pension Benefits table).
5. The 2010 amount listed in this column for Mr. Petters includes medical, dental, life and disability premiums ($47,192), company contributions to Northrop Grumman defined contribution plans ($9,800), personal liability insurance ($541) and personal and dependent travel including company aircraft ($4,476).
The 2010 amount listed in this column for Ms. Niland includes medical, dental, life and disability premiums ($33,699), company contributions to Northrop Grumman defined contribution plans ($16,533), personal liability insurance ($500) and personal and dependent travel including company aircraft ($47).

The 2010 amount listed in this column for Mr. Edenzon includes medical, dental, life and disability premiums ($33,652), company contributions to Northrop Grumman defined contribution plans ($18,066), financial planning/income tax preparation ($950) and personal liability insurance ($500).

The 2010 amount listed in this column for Mr. Mulherin includes medical, dental, life and disability premiums ($43,896), company contributions to Northrop Grumman defined contribution plans ($14,316), financial planning/income tax preparation ($4,000) and personal liability insurance ($500).

The 2010 amount listed in this column for Mr. Ermatinger includes medical, dental, life and disability premiums ($42,592), company contributions to Northrop Grumman defined contribution plans ($13,752), financial planning/income tax preparation ($460) and personal liability insurance ($500).

**Method for Calculating Perquisite Value**

The following method was used to calculate the value of personal use of Northrop Grumman aircraft described in the paragraphs above. Northrop Grumman calculates the incremental cost of each element, which includes trip-related crew hotels and meals, in-flight food and beverages, landing and ground handling fees, hourly maintenance contract costs, hangar or aircraft parking costs, fuel costs based on the average annual cost of fuel per mile flown, and other smaller variable costs. Fixed costs that would be incurred in any event to operate Northrop Grumman aircraft (e.g., aircraft purchase costs, maintenance not related to personal trips, and flight crew salaries) are not included. The amount related to the loss of tax deduction to Northrop Grumman on account of personal use of corporate aircraft under the Internal Revenue Code is not included.

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2010 Grants of Plan-Based Awards

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Grant Type</th>
<th>Grant Date</th>
<th>Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)</th>
<th>Estimated Future Payouts Under Equity Incentive Plan Awards(2)</th>
<th>All Other Stock Awards: Number of Shares of Stock or Units (3)</th>
<th>All Other Option Awards: Number of Option Awards Underlying Option(s) (4)</th>
<th>Exercise or Fair Value of Stock and Option Awards ($) (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>Incentive Plan</td>
<td>2/16/10</td>
<td>0  562,500  1,125,000</td>
<td>0  29,000  58,000</td>
<td>122,700</td>
<td>59.56</td>
<td>1,400,034</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td>RPSR</td>
<td>2/16/10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,208,350</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>Incentive Plan</td>
<td>2/16/10</td>
<td>0  133,900  267,800</td>
<td></td>
<td></td>
<td></td>
<td>1,043,265</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
<td>RPSR</td>
<td>2/16/10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,043,265</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>Incentive Plan</td>
<td>2/16/10</td>
<td>0  166,860  333,720</td>
<td>0  16,336  32,672</td>
<td></td>
<td></td>
<td>1,264,864</td>
</tr>
<tr>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td>RPSR</td>
<td>2/16/10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,264,864</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>Incentive Plan</td>
<td>2/16/10</td>
<td>0  166,860  333,720</td>
<td>0  16,336  32,672</td>
<td></td>
<td></td>
<td>1,264,864</td>
</tr>
<tr>
<td>Vice President and General Manager—Newport News Operations</td>
<td>RPSR</td>
<td>2/16/10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,264,864</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Incentive Plan</td>
<td>2/16/10</td>
<td>0  115,051  230,102</td>
<td>0  8,587  17,174</td>
<td></td>
<td></td>
<td>664,874</td>
</tr>
<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td>RPSR</td>
<td>2/16/10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>664,874</td>
</tr>
</tbody>
</table>

Footnotes:

(1) Amounts in these columns show the range of payouts that was possible under Northrop Grumman’s annual bonus plan based on performance during 2010, as described in the Compensation Discussion and Analysis.

(2) These amounts relate to RPSRs granted in 2010 under the 2001 Long-Term Incentive Stock Plan. Each RPSR represents the right to receive a share of Northrop Grumman’s common stock upon vesting of the RPSR. For the President, the RPSRs may be earned based on relative Total Shareholder Return over a three-year period commencing on January 1, 2010 and ending December 31, 2012. For other NEOs, the RPSRs may be earned based on Northrop Grumman’s Operating Margin ("OM") and RONA performance over a three-year performance period commencing January 1, 2010 and ending December 31, 2012. The payout will occur in early 2013 and may range from 0% to 200% of the rights awarded. Earned RPSRs may be paid in shares, cash or a combination of shares and cash. An executive must remain employed through the performance period to earn an award, although pro-rata vesting results if employment terminates earlier due to retirement, death or disability. See the Severance/Change-in-Control section for treatment of RPSRs in these situations and upon a change in control.

(3) These amounts relate to non-qualified stock options granted in 2010 under the 2001 Long-Term Incentive Stock Plan. The exercise price for the options equals the closing price of Northrop Grumman’s common stock on the date of grant. The options vest in one-third installments on the first three anniversaries of the grant date and become fully vested after three years. The options may also vest upon a change in control under certain circumstances, and a portion of the options may vest upon termination due to retirement, death or disability (see more on these issues in the Severance/Change-in-Control section). The options expire seven years from the date of the grant. No dividends or dividend equivalents are payable with respect to the options.

(4) For assumptions used in calculating these numbers in accordance with U.S. GAAP, see the discussion in Footnote 18 of Northrop Grumman Shipbuilding’s financial statements for the fiscal year ended December 31, 2010, included elsewhere herein, adjusted to exclude forfeitures.
# Outstanding Equity Awards at 2010 Year-End

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Option Awards</th>
<th>Stock Awards</th>
<th>Equity Incentive Plan Awards</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Securities Underlying Unearned Options (a)</td>
<td>Number of Securities Underlying Unearned Options (a)</td>
<td>Number of Shares or Units of Stock that Have Not Vested (d)</td>
</tr>
<tr>
<td></td>
<td>Exercisable(1)</td>
<td>Unexercisable(1)</td>
<td>Grant Date</td>
</tr>
<tr>
<td>C. Michael petals, President and Chief Executive Officer</td>
<td>0</td>
<td>122,700</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td>4,980</td>
<td>2,171,509</td>
<td>44.99</td>
</tr>
<tr>
<td>Matthew J. Mulherin, Vice President and General Manager—Newport News Operations</td>
<td>4,980</td>
<td>2,171,509</td>
<td>44.99</td>
</tr>
<tr>
<td>William R. Ermatinger, Vice President and Chief Human Resources Officer</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Barbara A. Niland, Vice President and Chief Financial Officer</td>
<td>0</td>
<td>0</td>
<td>23,160</td>
</tr>
</tbody>
</table>

## Footnotes:

1. Options awarded vest at a rate of 33 1/3% per year on the grant’s anniversary date over the first three years of the seven-year option term. Options granted prior to 2008 vest at a rate of 25% per year on the grant’s anniversary date over the first four years of the ten-year option term.

2. Outstanding Restricted Stock Rights (RSRs) for Mr. Petters of 12,500 fully vested on January 15, 2011.

3. These are target numbers for RPSRs. The first RPSR award for each NEO will vest based on performance for the three-year period ending on December 31, 2012; the second, based on performance for the three-year period ending on December 31, 2011; and the third (and fourth for Mr. Edenzon and Mr. Ermatinger), based on performance for the three-year period ending on December 31, 2010.

4. Based on closing price of Northrop Grumman’s stock on December 31, 2010 of $64.78 for target RPSRs.
### 2010 Option Exercises and Stock Vested

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Number of Shares Acquired on Exercise (#)</th>
<th>Value Realized on Exercise ($)</th>
<th>Number of Shares Acquired on Vesting(*) (#)</th>
<th>Value Realized on Vesting ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>0</td>
<td>0</td>
<td>15,660</td>
<td>932,710</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>0</td>
<td>0</td>
<td>4,567</td>
<td>272,011</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>0</td>
<td>0</td>
<td>4,350</td>
<td>259,086</td>
</tr>
<tr>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>0</td>
<td>0</td>
<td>6,090</td>
<td>362,720</td>
</tr>
<tr>
<td>Vice President and General Manager—Newport News Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>0</td>
<td>0</td>
<td>3,480</td>
<td>207,269</td>
</tr>
<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Footnote:**

(*) All shares in this column are RPSRs.

### 2010 Pension Benefits

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Plan Name</th>
<th>Number of Years Credited Service (#)</th>
<th>Present Value of Accumulated Benefit(*) ($)</th>
<th>Payments During Last Fiscal Year ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>CPC SERP</td>
<td>6.17</td>
<td>1,236,757</td>
<td>0</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td></td>
<td>22.50</td>
<td>2,326,126</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>22.50</td>
<td>496,901</td>
<td>0</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>NNS Restoration</td>
<td>32.00</td>
<td>1,765,890</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
<td>ES Executive Pension Plan</td>
<td>7.50</td>
<td>281,647</td>
<td>0</td>
</tr>
<tr>
<td>Edward F. Edenzon</td>
<td>ERISA 2</td>
<td>32.00</td>
<td>946,364</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td>Northrop Grumman Pension Plan</td>
<td>32.00</td>
<td>588,673</td>
<td>0</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>OSERP</td>
<td>21.00</td>
<td>1,055,557</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and General Manager—Newport News Operations</td>
<td>ES Executive Pension Plan</td>
<td>13.17</td>
<td>471,922</td>
<td>0</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>NNS Restoration</td>
<td>13.17</td>
<td>437,970</td>
<td>0</td>
</tr>
<tr>
<td>Operations</td>
<td>NNS Salaried Pension Plan</td>
<td>30.00</td>
<td>684,500</td>
<td>0</td>
</tr>
<tr>
<td>Chief Human Resources</td>
<td>OSERP</td>
<td>23.55</td>
<td>868,995</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>ERISA 2</td>
<td>7.50</td>
<td>106,145</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and General Manager—Newport News Operations</td>
<td>ES Executive Pension Plan</td>
<td>23.55</td>
<td>345,854</td>
<td>0</td>
</tr>
<tr>
<td>Chief Human Resources</td>
<td>Northrop Grumman Pension Plan</td>
<td>23.55</td>
<td>339,573</td>
<td>0</td>
</tr>
</tbody>
</table>

**Footnote:**

(*) While benefits may be spread over different plans, it is Northrop Grumman’s policy that an executive’s total benefit under these plans is essentially limited to 60% of such executive’s final average pay. Service listed above in the CPC SERP represents employment while in a CPC position. The pension benefits for Mr. Petters under the CPC SERP are based on an alternate formula (as described in more detail in the CPC SERP section below) which includes total Northrop Grumman service.
The pension values included in this table are the present value of the benefits expected to be paid in the future. They do not represent actual lump sum values that may be paid from a plan. The amount of future payments is based on the current accrued pension benefit as of December 31, 2010. Pursuant to the SEC disclosure rules: (i) the actuarial assumptions used to calculate amounts for this table are the same as those used for Northrop Grumman’s financial statements and (ii) all pension values are determined assuming the NEO works until the specified retirement age, which is the earliest unreduced retirement age (as defined in each plan).

The value of accumulated benefits for Ms. Niland and Mr. Ermatinger has been computed in accordance with SEC guidance. This guidance results in an overlap of benefits in the OSERP and the ES Executive Pension Plan (“EPP”) which has the effect of overvaluing their benefits. Based on SEC guidance, the assumed OSERP retirement age for Ms. Niland and Mr. Ermatinger is the date on which they attain 85 points (age 55 in each case). At this age, their EPP benefit is zero, thereby increasing the OSERP benefit (see description of each of these plans below for further details). The assumed retirement age for the remaining plans is age 60. Under this assumption, the EPP and the OSERP are both payable. In reality, Ms. Niland and Mr. Ermatinger will retire under only one retirement age. If they were to retire on their earliest retirement age of 55, their annual annuity, based on current service and earnings, would be approximately $218,300 and $147,500 respectively. The present values are $2,570,985 and $1,298,413 which represent a more accurate value of their total benefit rather than the total amounts of $3,582,574 and $1,660,567 shown above.

General Explanation of the Table

Through acquisitions, Northrop Grumman has acquired numerous pension plans applying to different groups of employees. Through changes in employment, individual employees may be covered by several different pension plans. However, an executive’s total benefit under these plans is essentially limited to 60% of his final average pay. Legally, the accrued pension benefit cannot be reduced or taken away so all of these historical pension plans have been maintained.

Pension plans provide income during retirement as well as benefits in special circumstances including death and disability. In general, the plans are structured to reward and retain employees of long service and recognize higher achievement levels as evidenced by increases in annual pay. The term “qualified plan” generally means a plan that qualifies for favorable tax treatment under Internal Revenue Code Section 401. Savings plans (also known as 401(k) plans) and traditional pension plans are examples of qualified plans. Qualified plans apply to a broad base of employees. The term “nonqualified plan” generally means a plan that is limited to a specified group of management personnel. The nonqualified plans supplement the qualified plans and (1) provide benefits that would be provided under Northrop Grumman’s qualified plans but for limitations imposed by the Internal Revenue Code and (2) provide a minimum level of pension benefits to elected and appointed officers of Northrop Grumman in recognition of the higher levels of responsibility.

The amounts in the table are based on the specific provisions of each plan, which are described in more detail below. There are two basic types of pension benefits reflected in the Pension Benefits Table: non-cash balance type benefits and cash balance type benefits. For purposes of the amounts in the table: non-cash balance type benefits are determined based on the annual pension earned as of December 31, 2010, and include any supplemental payments. Cash balance type benefits are based on the account balance as of December 31, 2010, plus a future interest credit, converted to an annuity using the applicable conversion factors.


The change in pension values shown in the Summary Compensation Table includes the effect of:

- an additional year of service from December 31, 2009 to December 31, 2010;
- changes in eligible pension pay;
- changes in applicable pay cap limits; and
- changes in actuarial assumptions.
Description of Qualified Plans

Northrop Grumman Pension Plan (NGPP) and Newport News Shipbuilding, Inc. Retirement Plan (“NNS Plan”)

These plans are part of the Northrop Grumman Pension Program (the “Program”). The general benefit structure of plans within the Program is similar except for the historical benefit formulas, the transition benefit formulas and the timing of the transition period, all of which are described below.

The Program is a group of defined benefit pension plans qualified under Internal Revenue Code Section 401. The Program provides up to three component pieces of benefits depending on when a participant is hired and terminates. The following chart illustrates the component pieces of the Program benefit (described in more detail after the chart):

<table>
<thead>
<tr>
<th>Part B</th>
<th>(5-Year Transition Benefit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit based on a formula similar to the one under the historical plan formula during the transition period</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Part A</th>
<th>Benefit under the historical plan formula before the transition period</th>
</tr>
</thead>
<tbody>
<tr>
<td>or</td>
<td>(if greater)</td>
</tr>
</tbody>
</table>

| Part D | Benefit under the cash balance formula after the transition period |

| = | Pension Benefit |

<table>
<thead>
<tr>
<th>Part C</th>
<th>(5-Year Transition Benefit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit under the cash balance formula during the transition period</td>
<td></td>
</tr>
</tbody>
</table>

The components are the historical benefit (the Part A benefit), the transition benefit (the greater of the Part B benefit or the Part C benefit) and the cash balance benefit (the Part D benefit). Eligible employees who joined the Program after the transition date associated with their pension plan accrue only the cash balance benefit (Part D) from their date of participation.

The qualified benefit for each NEO is the sum of these three benefits (Part A + Part B or C + Part D). The transition period for the NGPP is July 1, 2003 through June 30, 2008 while the transition period for the NNS Plan is January 1, 2004 through December 31, 2008. During the transition period, each eligible participant earned the greater of (i) the benefit calculated under a formula similar to his or her historical plan (Part B) or (ii) the cash balance formula benefit (Part C).

The Program’s cash balance formula (Parts C and D benefits) uses a participant’s points (age plus years of service) to determine a pay-based credit amount (a percentage of eligible pay) on a monthly basis. Interest is credited monthly on the amount in the participant’s hypothetical individual account. At normal retirement age, a participant’s balance in the hypothetical account is converted into an annuity payable for life, using factors specified in the Program. There are various forms of annuities from which the participant can choose, including a single life annuity or a joint-and-survivor annuity.

Specific Elements of the Program

The following paragraphs describe specific elements of the Program in more detail.

- **Formulas Under Historical Plans:**
  - Northrop Grumman Electronic Systems Pension Plan (“NG ESPP”). The NG ESPP is a sub-plan of the NGPP and provides a benefit equal to 2% multiplied by the sum of all years of pensionable compensation (as limited by Code section 401(a)(17)) from January 1, 1995 plus a frozen benefit.
accrued under the prior Westinghouse Pension Plan, if any. Participants hired prior to January 1, 1995 who elect an annuity form of payment for their Westinghouse frozen benefit are eligible for an annual pre-age 62 supplemental benefit equal to $144 per year of service. This supplemental benefit is paid to those who retire prior to age 62 with payments ceasing at age 62. The NG ESPP was a contributory plan until April 1, 2000. Ms. Niland and Mr. Ermatinger have historical (Part A) benefits under this formula.

- **Newport News Shipbuilding, Inc. Retirement Plan.** The NNS Plan provides a benefit equal to 55% of final average pay (as limited by Code section 401(a)(17)) multiplied by benefit service up to a maximum of 35 years divided by 35. Participants with pre-1997 service also have a frozen accrued benefit with the prior NNS parent company, Tenneco. Total benefit service is used for the NNS Plan benefit but the frozen accrued benefit with Tenneco is offset from the total benefit. Final average pay is the average of the final 60 months of base pay multiplied by 12 to determine an annual final average pay. Mr. Petters, Mr. Edenzon and Mr. Mulherin have historical (Part A) benefits under this formula.

- **Cash Balance Formula.** Table 1 shows the percentage of pay credit specified at each point level for the Part C benefit for each NEO. Interest is credited monthly based on the 30-year Treasury bond rate.

- For the Part D benefit, the cash balance formula for all NEOs is based on Table 2.

### Table 1 (Heritage)

<table>
<thead>
<tr>
<th>Points (attained age and total service)</th>
<th>Credit Amount</th>
<th>Eligible Pay in Excess of Social Security Wage Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>6.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>25 to 34</td>
<td>6.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>35 to 44</td>
<td>7.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>45 to 54</td>
<td>7.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>55 to 64</td>
<td>8.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>65 to 74</td>
<td>8.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>75 to 84</td>
<td>9.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Over 84</td>
<td>9.5%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

### Table 2 (Part D Formula)

<table>
<thead>
<tr>
<th>Points (attained age and total service)</th>
<th>Credit Amount</th>
<th>Eligible Pay in Excess of Social Security Wage Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 25</td>
<td>3.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>25 to 34</td>
<td>4.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>35 to 44</td>
<td>4.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>45 to 54</td>
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</tr>
<tr>
<td>65 to 74</td>
<td>6.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>75 to 84</td>
<td>7.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Over 84</td>
<td>9.0%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

- **Vesting.** Participants vest in their Program benefits upon completion of three years of service. As of December 31, 2010, each NEO has a nonforfeitable right to receive retirement benefits, which are payable upon early (if eligible) or normal retirement, as elected by the NEO.
Form of Benefit. The standard form of benefit is an annuity payable for the life of the participant. At normal retirement the annuity for the cash balance formula is equal to the accumulated account balance divided by 9. Other annuity options may be elected; however, each of them is actuarially equivalent in value to the standard form. The NG ESPP also allows a lump-sum form of distribution to be elected on a portion of the historical (Part A) benefit.

Pay. Pay for purposes of the cash balance, and the NG ESPP formulas is basically salary plus the annual cash bonus. Final average pay for the NNS Plan is determined using base salary only.

Normal Retirement. Normal retirement means the benefit is not reduced for early commencement. It is generally specified in each formula: age 65 for the historical NG ESPP and NNS Plan formula and the later of age 65 and three years of vesting service for the cash balance formula.

Early Retirement. Early retirement eligibility for the historical NNS Plan and for the cash balance formulas occurs when the participant attains both age 55 and completes 10 years of service. Early retirement for the NG ESPP can occur when the participant attains either age 58 and completes 30 years of service or attains age 60 and completes 10 years of service. Alternatively, an NG ESPP participant may elect to commence an actuarially reduced vested benefit at any time following termination. Early retirement benefits under both the historical and cash balance formulas may be reduced for commencement prior to normal retirement. This is to reflect the longer period of time over which the benefit will be paid.

All NEOs have completed 10 or more years of service; hence, they are eligible for early retirement under the NGPP or the NNS Plan, as applicable, upon attainment of the early retirement age requirement. Early retirement benefits for each NEO cannot commence prior to termination of employment.

Description of Nonqualified Plans

ERISA 2

ERISA 2 is a nonqualified plan which provides benefits that would have been paid under the NGPP but for the Code section 401(a)(17) limit on the amount of compensation that may be taken into account under a qualified plan. ERISA 2 also provides benefits based on compensation deferred under a Company deferred compensation plan, because such deferrals are not included as compensation under the qualified plans. Benefits under ERISA 2 are subject to a general limitation of 60% of final average pay (reduced for early retirement, if applicable, according to the rules of the OSERP) for all Company pension benefits. Optional forms of payment are generally the same as those from the qualified plan, plus a 13-month delayed lump sum option on a portion of the ERISA 2 benefit. Reductions for early retirement apply in the same manner as under the associated qualified plan.

Ms. Niland and Mr. Ermatinger began participation under the ERISA 2 plan on July 1, 2003; the date ERISA 2 was amended to cover NG ESPP participants.

NNS Restoration Plan

NNS Restoration Plan is a nonqualified plan which provides benefits that would have been paid under the NNS Plan but for the Code section 401(a)(17) limit on the amount of compensation that may be taken into account under a qualified plan and the Code Section 415 limit on benefits that may be paid under a qualified plan. The NNS Restoration Plan also provides benefits based on total compensation (generally base pay plus bonus earned in a calendar year) including compensation deferred under a Northrop Grumman deferred compensation plan. Benefits under the NNS Restoration Plan are subject to a general limitation of 60% of final average pay (reduced for early retirement, if applicable, according to the rules of the OSERP) for all Northrop Grumman pension benefits. Optional forms of payment are the same as those under the NNS Plan. Reductions for early retirement apply in the same manner as under the NNS Plan.

Mr. Petters, Mr. Edenzon and Mr. Mulherin began participation under the NNS Restoration Plan when they reached applicable pay grades for inclusion in the Plan.
ES Executive Pension Plan

The ES EPP is a nonqualified plan, frozen to new entrants on July 1, 2003. It provides a gross supplemental pension equal to 1.47% of final average pay for each year or portion thereof that the participant was making maximum contributions to the NG ESPP or predecessor plan. Final average pay is the average of the highest five annualized base salaries at December of each year on or after 1995 plus the average of the highest five annual incentive payments since January 1, 1995. The final ES EPP benefit is reduced by benefits from the NG ESPP and ERISA 2. Participants vest in their ES EPP benefits upon attaining age 58 and completion of 30 years of service, attaining age 60 and completion of 10 years of service or attaining age 65 and completion of 5 years of service. These milestones must be attained prior to termination from the Company. Currently, Ms. Niland and Mr. Ermatinger are not vested in their respective ES EPP benefits. Optional forms of payment are the same as those from the NG ESPP.

OSERP

The OSERP is a nonqualified plan frozen to new entrants on July 1, 2008; therefore, officers hired on or after this date and any promoted officers who do not participate in a qualified defined benefit pension plan are not allowed to participate in the OSERP. They instead participate in the Officers Retirement Account Contribution Plan, which is a defined contribution plan arrangement. Ms. Niland, Mr. Edenzon, Mr. Mulherin and Mr. Ermatinger participate in the OSERP which provides a total pension benefit equal to a percentage of final average pay (the average pay without the 401(a)(17) limit and including deferred compensation in the three highest-paid plan years during the greater of (i) the last ten consecutive years of participation, or (ii) all consecutive years of participation since January 1, 1997) where the percentage is determined by the following formula: 2% for each year of service up to 10 years, 1.5% for each subsequent year up to 20 years, and 1% for each additional year over 20 and less than 45, less any other Northrop Grumman pension benefits. In the OSERP provisions, all years of service with Northrop Grumman are used to determine the final percentage.

The OSERP benefit when combined with all Northrop Grumman pension benefits cannot exceed the general limit of 60% of final average pay (reduced for early retirement, if applicable, according to the rules of the OSERP). Optional forms of payment are generally the same as those from the qualified plan, plus a 13-month delayed lump sum option on a portion of the OSERP benefit.

Normal Retirement: Age 65.

Early Retirement: Age 55 and completion of 10 years of service. Benefits are reduced by the smaller of 2.5% for each year between retirement age and age 65, or 2.5% for each point less than 85 at retirement. Points are equal to the sum of age and years of service.

Vesting: Participants vest in their OSERP benefits upon attaining age 55 and completion of 10 years of service or attaining age 65 and completion of 5 years of service. These milestones must be attained prior to termination from Northrop Grumman.

CPC SERP

The CPC SERP is a nonqualified plan, frozen to new entrants on July 1, 2009. Mr. Petters is eligible to participate in the CPC SERP which provides a pension equal to the greater of the amount accrued under the CPC SERP formula or the benefit calculated using the OSERP provisions. Effective July 1, 2009, the CPC SERP formula is a percentage of final average pay (as defined under the OSERP) where the percentage is determined by the following formula: 3.3334% for each year or portion thereof that the participant has served on the Corporate Policy Council up to 10 years, 1.5% for each subsequent year up to 20 years and 1% for each additional year over 20. The final CPC SERP benefit is determined by deducting any other Northrop Grumman pension benefits accrued for the same period of council service.

CPC SERP participants will also have their benefits calculated under the OSERP provisions and if it results in a greater amount, the benefit under the OSERP provisions will be provided.
The CPC SERP benefit when combined with all Northrop Grumman pension benefits cannot exceed the general limit of 60% of final average pay (reduced for early retirement, if applicable, according to the rules of the CPC SERP). Optional forms of payment are generally the same as those from the qualified plan, plus a 13-month delayed lump sum option on a portion of the CPC SERP benefit.

Normal Retirement: Age 65.

Early Retirement: The later of the first day of the month following termination or the commencement of the participant’s qualified plan benefit. Benefits are reduced by the smaller of 2.5% for each year between retirement age and age 65, or 2.5% for each point less than 85 at retirement. Points are equal to the sum of age and years of service.

Vesting: Participants vest in their CPC SERP benefits when they have vested in their qualified plan benefits.

409A Restrictions on Timing and Optional Forms of Payment

Under IRC section 409A, employees who participate in company-sponsored nonqualified plans such as the ES EPP, ERISA 2, NNS Restoration Plan, the OSERP and the CPC SERP are subject to special rules regarding the timing and forms of payment for benefits earned or vested after December 31, 2004 (“post-2004 benefits”). Payment of post-2004 benefits must begin on the first day of the month coincident with or following the later of attainment of age 55 and termination from the Northrop Grumman. The optional forms of payment for post-2004 benefits are limited to single life annuity or a selection of joint and survivor options.

Specific Assumptions Used to Estimate Present Values

Assumed Retirement Age: For all plans, pension benefits are assumed to begin at the earliest retirement age that the participant can receive an unreduced benefit payable from the plan. OSERP and CPC SERP, benefits are first unreduced once the NEO reaches age 55 and accumulates 85 points or reaches age 65. For the NG ESPP (Part A and B benefits), the associated ERISA 2 (Part B benefits) and the ES EPP, vested benefits are first unreduced for the NEO at the earlier of age 60 and completion of 30 years of service or age 65. NNS Plan and associated NNS Restoration Plan benefits (Part A and B benefits), are first unreduced at the earlier of age 62 and completion of 10 years of service or age 65. Given each NEO’s period of service, cash balance benefits (Part C and D benefits) will be converted to an annuity on an unreduced basis at age 55.

When portions of an NEO’s benefit under the “Part A + Part B or Part C + Part D” structure have different unreduced retirement ages, the later unreduced age is used for the entire benefit.

Discount Rate: The applicable discount rates are 6.00% as of December 31, 2009 (6.25% for the NNS Plan and 5.75% for Plan B) and 5.75% as of December 31, 2010 (6.00% for the NNS Plan).

Mortality Table: As was used for financial reporting purposes, RP-2000 projected ten years without collar adjustment as of December 31, 2009 and RP-2000 projected eleven years without collar adjustment as of December 31, 2010.

Present Values: Present values are calculated using the Assumed Retirement Age, Discount Rate, and Mortality Table described above; they assume the NEO remains employed until his earliest unreduced retirement age.

Future Investment Crediting Rate Assumption: Cash balance amounts are projected to the Assumed Retirement Age based on the future investment crediting rate assumptions of 4.37% as of December 31, 2009 and 3.80% as of December 31, 2010. These rates are used in conjunction with the discount rate to estimate the present value amounts for cash balance benefits.

Information on Executives Eligible to Retire and Additional Notes

Mr. Edenzon is eligible to retire early and begin pension benefits immediately under all plans in which he participates. His total annual immediate benefit assuming he had terminated on December 31, 2010 was $165,943.
<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Plan Name</th>
<th>Executive Contributions in Last FY (1) ($)</th>
<th>Registrant Contributions in Last FY (2) ($)</th>
<th>Aggregate Earnings in Last FY (3) ($)</th>
<th>Aggregate Withdrawals/ Distributions ($)</th>
<th>Aggregate Balance at Last FYE (4) ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>Deferred Compensation Savings Excess</td>
<td>0</td>
<td>0</td>
<td>255,026</td>
<td>0</td>
<td>2,544,647</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>Deferred Compensation Savings Excess</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>Deferred Compensation Savings Excess</td>
<td>49,469</td>
<td>9,016</td>
<td>10,283</td>
<td>0</td>
<td>312,896</td>
</tr>
<tr>
<td>Vice President and General Manager—Gulf Coast Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>Deferred Compensation Savings Excess</td>
<td>26,372</td>
<td>10,549</td>
<td>14,974</td>
<td>0</td>
<td>152,868</td>
</tr>
<tr>
<td>Vice President and General Manager—Newport News Operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Deferred Compensation Savings Excess</td>
<td>84,418</td>
<td>0</td>
<td>215,114</td>
<td>0</td>
<td>1,619,631</td>
</tr>
<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Footnotes:

(1) Executive contributions in this column also are included in the salary and non-equity incentive plan columns of the 2010 Summary Compensation Table.

(2) Northrop Grumman contributions in this column are included under the All Other Compensation column in the 2010 Summary Compensation Table.

(3) Aggregate earnings in the last fiscal year are not included in the 2010 Summary Compensation Table since they are not above market or preferential.

(4) The only amounts reflected in this column that previously were reported as compensation to the NEO in the Summary Compensation Table were executive and Northrop Grumman contributions for the respective fiscal year-end and only if the NEO was reported as an NEO for each respective year. Aggregate earnings in this column were not reported previously in the Summary Compensation Table.

All Deferred Compensation Plan balances consist of employee contributions and earnings only; there are no company contributions to this plan.

Ms. Niland’s Savings Excess Plan (“SEP”) account balance consists of $255,411 in employee contributions, as adjusted for investment returns.

Mr. Edenzon’s SEP account balance consists of $123,526 in employee contributions, as adjusted for investment returns.

Mr. Mulherin’s SEP account balance consists of $8,279 in employee contributions, as adjusted for investment returns.

Mr. Ermatinger’s SEP account balance consists of $102,047 in employee contributions, as adjusted for investment returns.
Outlined below are the material terms of the two nonqualified deferred compensation plans in which the executives could participate. No above market earnings are provided under these plans.

<table>
<thead>
<tr>
<th>Feature</th>
<th>Savings Excess Plan</th>
<th>Deferred Compensation Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation Eligible for Deferral</td>
<td>1% to 75% of salary and ICP bonus above IRS limits</td>
<td>Up to 90% of salary and/or ICP bonus</td>
</tr>
<tr>
<td>Company Allocation</td>
<td>Up to 4%, based on a contribution rate of 8%</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>• First 2% is matched at 100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Next 2% is matched at 50%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Next 4% is matched at 25%</td>
<td></td>
</tr>
<tr>
<td>Method of Crediting Earnings</td>
<td>Participants may make elections on a daily basis as to how their account balances will be deemed invested for purposes of crediting earnings to the account. Deemed investments are chosen from a limited list of investment options selected by the Committee administering the Plan.</td>
<td>Participants may make elections on a daily basis as to how their account balances will be deemed invested for purposes of crediting earnings to the account. Deemed investments are chosen from a limited list of investment options selected by the Committee administering the Plan.</td>
</tr>
<tr>
<td>Vesting</td>
<td>100% at all times</td>
<td>100% at all times</td>
</tr>
<tr>
<td>At Termination of Employment</td>
<td>Based on advance election, payment made in lump sum or installments over period of up to 15 years.</td>
<td>Based on advance election, payment made in lump sum or installments over a 5, 10, or 15-year period.</td>
</tr>
<tr>
<td>Scheduled In-Service Distribution</td>
<td>Not available</td>
<td>Available with advance election. Payment made in lump sum or installments over 2-5 years. Up to 90% of the pre-2005 account balance may be distributed. A 10% forfeiture penalty will apply.</td>
</tr>
<tr>
<td>Non-Scheduled In-Service Distribution</td>
<td>Not available</td>
<td>Available</td>
</tr>
<tr>
<td>Hardship Withdrawals</td>
<td>Not available</td>
<td>Available</td>
</tr>
</tbody>
</table>

All deferred compensation that was not earned and vested before January 1, 2005 is subject to the requirements under Internal Revenue Code section 409A. Those requirements largely restrict an executive’s ability to control the form and timing of distributions from nonqualified plans such as those listed in this chart.

2010 Change-in-Control and Severance

The tables below provide estimated payments and benefits that Northrop Grumman would have provided each NEO if his employment had terminated on December 31, 2010 for specified reasons. These payments and benefits are payable based on the following Northrop Grumman arrangements:

- The Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation
- The 2001 Long-Term Incentive Stock Plan and terms and conditions of equity awards
- The Special Officer Retiree Medical Plan
- The Special Agreements (change-in-control agreements)

We summarized these arrangements before providing the estimated payment and benefit amounts in the tables. Due to the many factors that affect the nature and amount of any benefits provided upon the termination events discussed below, any actual amounts paid or distributed to NEOs may be different. Factors that may affect these amounts include timing during the year of the occurrence of the event, our stock price and the NEO’s age. The amounts described below are in addition to a NEO’s benefits described in the Pension Benefits and Nonqualified Deferred Compensation Tables, as well as benefits generally available to our employees such as distributions under our 401(k) plan, disability or life insurance benefits and accrued vacation.
Severance Plan Benefits

Upon a “qualifying termination” (defined below) Northrop Grumman had discretion to provide severance benefits to the NEOs under the Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation (“Severance Plan”). Provided the NEO signed a release, such executive would have received: (i) a lump sum severance benefit equal to one times base salary, and target bonus, except our President who would have received one and one-half times base salary and target bonus, (ii) continued medical and dental coverage for the severance period, (iii) income tax preparation/financial planning fees for one year and (iv) outplacement expenses up to 15% of salary. The cost of providing continued medical and dental coverage was based upon current premium costs. The cost of providing income tax preparation and financial planning for one year was capped at $15,000 for the Corp VP & President and $5,000 for each of the other NEOs.

A “qualifying termination” means one of the following:

- involuntary termination, other than for cause or mandatory retirement,
- election to terminate in lieu of accepting a downgrade to a non-officer position,
- following a divestiture of the NEO’s business unit, election to terminate in lieu of accepting a relocation, or
- if the NEO's position is affected by a divestiture, the NEO is not offered salary or bonus at a certain level.

Terms of Equity Awards

The terms of equity awards to the NEOs under the 2001 Long-Term Incentive Plan provided for accelerated vesting if an NEO terminated for certain reasons. For stock options and RPSRs, accelerated vesting of a portion of each award results from a termination due to death, disability, or retirement (after age 55 with 10 years of service or mandatory retirement at age 65). An extended exercise period is also provided for options under these circumstances. For restricted stock rights (“RSRs”), accelerated vesting occurs for a termination due to death or disability.

For purposes of estimating the payments due under RPSRs below, Northrop Grumman performance is assumed to be at target levels through the close of each three-year performance period.

The terms of equity awards to the NEOs under the 2001 Long-Term Incentive Plan also provided for accelerated vesting of stock options and RSRs (and for prorated payment in the case of RPSRs) in the event that the NEO was terminated in a qualifying termination related to a change in control (see “Change-in-Control Benefits” below). Prorated payment for RPSRs made upon a qualifying termination will be based on the portion of the three-year performance period prior to the qualifying termination. For example, if the qualifying termination occurred on June 30 in the second year of a three-year performance period, the target number of RPSRs subject to an award would be multiplied by one-half and then multiplied by the earnout percentage that is based on Northrop Grumman’s performance for the performance period.

Payout of RPSRs for retirements and terminations is made during the normal process for payouts which occur during the first quarter following the end of the performance period.

Retiree Medical Arrangement

The Special Officer Retiree Medical Plan (“SORMP”) was closed to new participants in 2007. NEOs who are vested participants in the SORMP are entitled to retiree medical benefits pursuant to the terms of the SORMP. The coverage is essentially a continuation of the NEO’s executive medical benefits plus retiree life insurance. A participant becomes vested if he or she has either five years of vesting service as an elected officer or 30 years of total service with Northrop Grumman and its affiliates. A vested participant can commence SORMP benefits at retirement before age 65 if he has attained age 55 and 10 years of service. The estimated cost of the SORMP benefit reflected in the tables below is the present value of the estimated cost to provide future benefits using actuarial calculations and assumptions. Mr. Petters is the only NEO eligible for SORMP benefits.
Change-in-Control Benefits

During its March 2010 meeting, the Northrop Grumman Compensation Committee approved the termination of all change-in-control programs and agreements effective January 1, 2011. Through December 31, 2010, Mr. Petters was entitled to severance benefits under his change-in-control agreement only upon a qualifying termination that occurred during a protected period (of up to six months) prior to a change in control or in the 24-month period following a change in control. For this purpose, a “qualifying termination” generally occurred if the NEO’s employment was terminated by Northrop Grumman for reasons other than “Cause” or the NEO terminated employment for specified “Good Reason” during the two-year period following the change in control.

As reflected in the following table, through December 31, 2010 and upon a qualifying termination, the Company would have provided the NEO with the following:

- a lump sum payment equal to three times the President’s highest annualized base salary earned
- a lump sum payment equal to three times the President’s target bonus for the year during which the change in control occurs
- a lump sum payment equal to the pro rata portion of the President’s target bonus for the year during which termination occurs
- a lump sum payment equal to the increase in the present value of all the President’s qualified and nonqualified pension benefits based on an addition in age and service of three years
- three years of continued welfare benefits
- reimbursement for the costs of outplacement services for 12 months following the effective date of termination, up to an amount equal to 15% of the President’s base salary
### Executive Benefits

<table>
<thead>
<tr>
<th></th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$ 0</td>
<td>$ 1,125,000</td>
<td>$ 2,250,000</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>$ 0</td>
<td>$ 843,750</td>
<td>$ 1,687,500</td>
<td>$ 0</td>
</tr>
<tr>
<td>Long-term Incentives (1)</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 4,541,088</td>
<td>$ 3,328,745</td>
</tr>
<tr>
<td>Benefits and Perquisites</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incremental Pension</td>
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<td>$ 0</td>
<td>$ 904,874</td>
<td>$ 0</td>
</tr>
<tr>
<td>Retiree Medical and Life Insurance</td>
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<td>$ 369,669</td>
<td>$ 369,669</td>
<td>$ 369,669</td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
<td>$ 0</td>
<td>$ 54,081</td>
<td>$ 128,856</td>
<td>$ 0</td>
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<tr>
<td>Life Insurance Coverage</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
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<tr>
<td>Financial Planning/Income Tax</td>
<td>$ 0</td>
<td>$ 15,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Outplacement Services</td>
<td>$ 0</td>
<td>$ 112,500</td>
<td>$ 112,500</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

**Footnotes:**

1. Long-term Incentives include grants of Restricted Stock Rights, Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).
2. Similar treatment provided for certain “good reason” terminations as described above. However, there would be no termination payment in the event of an involuntary termination for cause.
3. Retiree medical and life insurance value reflects cost associated with Disability. If termination results from death, the retiree medical and life insurance expense would be less than the disability amount indicated.
## Table of Contents

Termination Payments  
Barbara A. Niland  
Vice President and Chief Financial Officer

<table>
<thead>
<tr>
<th>Executive Benefits</th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
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<td>$ 334,750</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
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<td>$ 0</td>
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<tr>
<td>Long-term Incentives (1)</td>
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<td>$ 0</td>
<td>$ 843,112</td>
<td>$843,112</td>
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<tr>
<td>Benefits and Perquisites</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
<td>$ 0</td>
<td>$ 26,236</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Financial Planning/Income Tax</td>
<td>$ 0</td>
<td>$ 5,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Outplacement Services</td>
<td>$ 0</td>
<td>$ 50,213</td>
<td>$ 0</td>
<td>$ 0</td>
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### Footnotes:

1. Long-term Incentives include grants of Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).

2. Similar treatment provided for certain “good reason” terminations, as described above. However, there would be no termination payment in the event of an involuntary termination for cause.
<table>
<thead>
<tr>
<th>Executive Benefits</th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$ 0</td>
<td>$ 370,800</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>$ 0</td>
<td>$ 166,860</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Long-term Incentives (1)</td>
<td>$1,033,091</td>
<td>$ 1,033,091</td>
<td>$ 1,082,368</td>
<td>$1,033,091</td>
</tr>
<tr>
<td>Benefits and Perquisites</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
<td>$ 0</td>
<td>$ 26,236</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Financial Planning/Income Tax</td>
<td>$ 0</td>
<td>$ 5,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Outplacement Services</td>
<td>$ 0</td>
<td>$ 55,620</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

Footnotes:

(1) Long-term Incentives include grants of Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).

(2) Similar treatment provided for certain “good reason” terminations, as described above. However, there would be no termination payment in the event of an involuntary termination for cause.
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Termination Payments
Matthew J. Mulherin
Vice President and General Manager—Newport News Operations

<table>
<thead>
<tr>
<th>Executive Benefits</th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$ 0</td>
<td>$ 370,800</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>$ 0</td>
<td>$ 166,860</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Long-term Incentives (1)</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 1,082,368</td>
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<tr>
<td>Benefits and Perquisites</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
<td>$ 0</td>
<td>$ 36,054</td>
<td>$ 0</td>
<td>$ 0</td>
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<tr>
<td>Financial Planning/Income Tax</td>
<td>$ 0</td>
<td>$ 5,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Outplacement Services</td>
<td>$ 0</td>
<td>$ 55,620</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

Footnotes:
(1) Long-term Incentives include grants of Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).
(2) Similar treatment provided for certain “good reason” terminations, as described above. However, there would be no termination payment in the event of an involuntary termination for cause.
## Table of Contents

Termination Payments  
William R. Ermatinger  
Vice President and Chief Human Resources Officer

<table>
<thead>
<tr>
<th>Executive Benefits</th>
<th>Voluntary Termination</th>
<th>Involuntary Termination Not For Cause (2)</th>
<th>Post-CIC Involuntary or Good Reason Termination</th>
<th>Death or Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
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<td>$287,628</td>
<td>$0</td>
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<tr>
<td>Short-term Incentives</td>
<td>$0</td>
<td>$115,051</td>
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<tr>
<td>Long-term Incentives (1)</td>
<td>$0</td>
<td>$0</td>
<td>$587,684</td>
<td>$587,684</td>
</tr>
<tr>
<td>Benefits and Perquisites</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
<td>$0</td>
<td>$36,054</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Financial Planning/Income Tax</td>
<td>$0</td>
<td>$5,000</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>Outplacement Services</td>
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<td>$43,144</td>
<td>$0</td>
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</table>

**Footnotes:**

1. Long-term Incentives include grants of Restricted Performance Stock Rights and Stock Options. Results in a benefit under Voluntary Termination only if eligible for retirement treatment under the terms and conditions of the grants (age 55 with 10 years of service).
2. Similar treatment provided for certain “good reason” terminations, as described above. However, there would be no termination payment in the event of an involuntary termination for cause.
Accelerated Equity Vesting Due to Change in Control

The terms of equity awards to the NEOs under the 2001 Long-Term Incentive Plan provide for accelerated vesting of stock options and RSRs (and for prorated payments in the case of RPSRs) when Northrop Grumman is involved in certain types of “change in control” events that are more fully described in the Plan (e.g., certain business combinations after which Northrop Grumman is not the surviving entity and the surviving entity does not assume the awards). Vested stock options that are not exercised prior to one of these changes in control may be settled in cash and terminated. Prorated payments for RPSRs made upon one of these changes in control will be based on the portion of the three-year performance period prior to the change in control. For example, if a change in control occurred on June 30 in the second year of a three-year performance period, the target number of RPSRs subject to an award would be multiplied by one-half and then multiplied by the earnout percentage that is based on Northrop Grumman’s performance for the first half of the performance period.

The table below provides the estimated value of accelerated equity vesting and/or payments if such a change in control had occurred on December 31, 2010. The value of the accelerated vesting was computed using the closing market price of Northrop Grumman’s common stock on December 31, 2010 ($64.78). The value for unvested RPSRs was computed by multiplying $64.78 by the number of unvested shares that would vest. The value of unvested stock options equals the difference between the exercise price of each option and $64.78. No value was attributed to accelerated vesting of a stock option if its exercise price was greater than $64.78.

<table>
<thead>
<tr>
<th>Name and Principal Position</th>
<th>Stock Options</th>
<th>RSRs</th>
<th>RPSRs</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters, President and Chief Executive Officer</td>
<td>$2,211,167</td>
<td>$809,750</td>
<td>$1,520,171</td>
<td>$4,541,088</td>
</tr>
<tr>
<td>Barbara A. Noland, Vice President and Chief Financial Officer</td>
<td>$0</td>
<td>$0</td>
<td>$843,112</td>
<td>$843,112</td>
</tr>
<tr>
<td>Irwin F. Edenzon, Vice President and General Manager—Gulf Coast Operations</td>
<td>$98,554</td>
<td>$0</td>
<td>$983,814</td>
<td>$1,082,368</td>
</tr>
<tr>
<td>Matthew J. Mulherin, Vice President and General Manager—Newport News Operations</td>
<td>$98,554</td>
<td>$0</td>
<td>$983,814</td>
<td>$1,082,368</td>
</tr>
<tr>
<td>William R. Ermatinger, Vice President and Chief Human Resources Officer</td>
<td>$0</td>
<td>$0</td>
<td>$587,684</td>
<td>$587,684</td>
</tr>
</tbody>
</table>

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Agreements with Northrop Grumman Related to the Spin-Off

This section of the information statement summarizes material agreements between us and Northrop Grumman that will govern the ongoing relationships between the two companies after the spin-off and are intended to provide for an orderly transition to our status as an independent, publicly owned company. Additional or modified agreements, arrangements and transactions, which will be negotiated at arm’s length, may be entered into between Northrop Grumman and us after the spin-off.

Following the spin-off, we and Northrop Grumman will operate independently, and neither will have any ownership interest in the other. In order to govern certain ongoing relationships between us and Northrop Grumman after the spin-off and to provide mechanisms for an orderly transition, we and Northrop Grumman intend to enter into agreements pursuant to which certain services and rights will be provided for following the spin-off, and we and Northrop Grumman will indemnify each other against certain liabilities arising from our respective businesses. The following is a summary of the terms of the material agreements we expect to enter into with Northrop Grumman.

Separation and Distribution Agreement

We and NGSB intend to enter into a Separation and Distribution Agreement with Northrop Grumman and NGSC before the distribution of our shares of common stock to Northrop Grumman stockholders. The Separation and Distribution Agreement will set forth our agreements with Northrop Grumman regarding the principal actions needed to be taken in connection with our separation from Northrop Grumman, including the internal reorganization. It will also set forth other agreements that govern certain aspects of our relationship with Northrop Grumman following the spin-off.

Transfer of Assets and Assumption of Liabilities. The Separation and Distribution Agreement will identify certain transfers of assets and assumptions of liabilities that are necessary in advance of our separation from Northrop Grumman so that each of HII and Northrop Grumman retains both the assets of, and the liabilities associated with, our respective businesses. Matters identified above in the “Legal Proceedings” section that relate to our shipbuilding business will thus be allocated to us under the Separation and Distribution Agreement. The Separation and Distribution Agreement will also provide for the settlement or extinguishment of certain liabilities and other obligations between HII and Northrop Grumman. See "Unaudited Pro Forma Condensed Consolidated Financial Statements—Note D.”

Effective on the distribution date, all agreements, arrangements, commitments and understandings, including all intercompany accounts payable or accounts receivable, including intercompany indebtedness and intercompany work orders, between us and our subsidiaries and other affiliates, on the one hand, and Northrop Grumman and its other subsidiaries and other affiliates, on the other hand, will terminate as of the distribution date, except certain agreements and arrangements, which are intended to survive the distribution. After the distribution, we expect to issue letter subcontracts for the performance of follow-on work for terminated intercompany work orders. We expect then to negotiate definitive subcontracts with Northrop Grumman and its other subsidiaries and affiliates.

Shared Gains and Shared Liabilities. Subject to certain exceptions, including those set forth in the Tax Matters Agreement, the Separation and Distribution Agreement will provide for the sharing of certain gains and liabilities. We and Northrop Grumman will each be entitled to or responsible for the appropriate proportion of the shared gains or liabilities. The appropriate proportion applicable to any shared gain or liability will generally be determined by the extent to which the shared gain or liability relates to our or Northrop Grumman’s respective businesses. The Separation and Distribution Agreement further provides that where the Separation and Distribution Agreement has not already specified the appropriate proportions applicable to any such shared gain or liability, the applicable appropriate proportions with respect to a shared gain or liability will generally be determined by an allocation committee comprising one representative designated by each of Northrop Grumman and us.

Representations and Warranties. In general, neither we nor Northrop Grumman will make any representations or warranties regarding any assets or liabilities transferred or assumed, any consents or approvals that may be required in connection with such transfers or assumptions, the value or freedom from any lien or other security...
interest of any assets transferred, the absence of any defenses relating to any claim of either party or the legal sufficiency of any conveyance documents. Except as expressly set forth in the Separation and Distribution Agreement or in any ancillary agreement, all assets will be transferred on an “as is,” “where is” basis.

**The Distribution.** The Separation and Distribution Agreement will govern the rights and obligations of the parties regarding the proposed distribution. Prior to the distribution, the number of our shares held by Northrop Grumman will be increased to the number of shares of our common stock distributable in the distribution. Northrop Grumman will cause its agent to distribute all of the issued and outstanding shares of our common stock to Northrop Grumman stockholders who hold Northrop Grumman shares as of the record date.

**Conditions.** The Separation and Distribution Agreement will provide that the distribution is subject to several conditions that must be satisfied or waived by Northrop Grumman in its sole discretion. For further information regarding these conditions, see “The Spin-Off—Conditions to the Spin-Off.” Northrop Grumman may, in its sole discretion, determine the distribution date and the terms of the distribution and may at any time prior to the completion of the distribution decide to abandon or modify the distribution. The board of New NGC may determine the record date.

**Termination.** The Separation and Distribution Agreement will provide that it may be terminated by the board of directors of Northrop Grumman at any time prior to the distribution date.

**Release of Claims.** We and Northrop Grumman will agree to broad releases pursuant to which we will each release the other and its affiliates, successors and assigns and their respective stockholders, directors, officers, agents and employees from any claims against any of them that arise out of or relate to events, circumstances or actions occurring or failing to occur or any conditions existing at or prior to the time of the distribution. These releases will be subject to certain exceptions set forth in the Separation and Distribution Agreement.

**Indemnification.** We and NGSB on one hand, and Northrop Grumman and NGSC on the other, will agree to indemnify each other and each of our respective affiliates, former, current and future directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing against certain liabilities in connection with the spin-off and our respective businesses.

The amount of any party’s indemnification obligations will be subject to reduction by any insurance proceeds received by the party being indemnified. The Separation and Distribution Agreement will also specify procedures with respect to claims subject to indemnification and related matters.

In the event that, prior to the fifth anniversary of the distribution, if we experience a change of control and our corporate rating is downgraded to B or B2 or below, as applicable, during the period beginning upon the announcement of such change of control and ending 60 days after the announcement of the consummation of such change of control, we will be required to provide credit support for indemnity obligations under the Separation and Distribution Agreement in the form of one or more standby letters of credit in an amount equal to $250 million.

**Employee Matters Agreement**

We intend to enter into an Employee Matters Agreement with Northrop Grumman that will set forth our agreements with Northrop Grumman as to certain employment, compensation and benefits matters.

The Employee Matters Agreement will provide for the allocation and treatment of assets and liabilities arising out of employee compensation and benefit programs in which our employees participated prior to the distribution. In connection with the distribution, we will provide benefit plans and arrangements in which our employees will participate going forward. Generally, we will assume or retain sponsorship of, and liabilities relating to, employee compensation and benefit programs relating to our current and former employees and all employees who will be transferred to us from Northrop Grumman in connection with the distribution.

We expect that all outstanding Northrop Grumman equity awards held by current and former employees of NGSB and its subsidiaries as of the distribution will be converted to HII equity awards, issued pursuant to a plan that we will establish. We expect the conversion will result in the converted award having substantially the same intrinsic value as the applicable Northrop Grumman equity award as of the conversion. The performance criteria applicable

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to any converted restricted performance stock rights shall also be adjusted so that the applicable criteria are measured based on Northrop Grumman performance through December 31, 2010 and our performance following such date through the end of the applicable performance period.

The Employee Matters Agreement will also provide for post-distribution transfers of employees between Northrop Grumman and us. Such transfers may be effected within 45 days of the distribution by mutual agreement between Northrop Grumman and us. In such event, the recipient employer will generally be responsible for all employment-related liabilities relating to the transferred employees, and, under the Employee Matters Agreement, the transferred employees will be treated in the same manner as other employees of the recipient.

Insurance Matters Agreement

We intend to enter into an Insurance Matters Agreement with Northrop Grumman pursuant to which we will allocate rights regarding various policies of insurance.

Under the Insurance Matters Agreement, Northrop Grumman will assign to us its rights and obligations in certain insurance policies that are exclusive to our business. In the event that Northrop Grumman experiences a loss that relates to our business and may be recoverable under the insurance policies transferred to us pursuant to the Insurance Matters Agreement, Northrop Grumman may make the claim directly to the insurer. We will be responsible for paying all amounts necessary to exhaust or otherwise satisfy all applicable self-insured retentions, deductibles, and retrospective premium adjustments and similar amounts.

Northrop Grumman will retain the rights and obligations to all other insurance policies. Northrop Grumman will provide us the benefit of such retained insurance policies, until such policies are exhausted by us or Northrop Grumman, for occurrences prior to the distribution. We will have no rights under such policies for occurrences after the distribution.

Intellectual Property License Agreement

We, through NGSB, intend to enter into an Intellectual Property License Agreement with NGSC pursuant to which we will license certain of our intellectual property to NGSC and its affiliates and NGSC and its affiliates will license certain of its intellectual property to us.

The licenses granted by us and NGSC under the Intellectual Property License Agreement will permit the licensed party and its affiliates to use certain licensed intellectual property for uses such party has made of the licensed intellectual property in the ordinary course of such party’s business generally in the twelve-month period prior to the distribution, including the general manner and scope of such use in the licensed party’s line of business for which the licensed intellectual property has been used during such period.

We and NGSB each may assign the Intellectual Property License Agreement and the rights granted thereunder, whether in whole or in part, without the other party’s consent if such assignment takes place in an acquisition context, including in connection with the sale of a business unit or a product line. An assignment by either of us to an unaffiliated third party outside of an acquisition context will require the other party’s consent. Any assignee of an assigning party’s license rights is subject to the limitations and restrictions imposed under the Intellectual Property License Agreement, including the restrictions regarding the general manner, scope and line of business for which and by whom the licensed intellectual property will be used.

Tax Matters Agreement

We intend to enter into a Tax Matters Agreement with Northrop Grumman that will govern rights and obligations after the spin-off with respect to matters regarding U.S. Federal, state, local and foreign income taxes and other taxes, including tax liabilities and benefits, attributes, returns and contests.

Under the Tax Matters Agreement, taxes for periods before the spin-off will be allocated as follows:

• We are severally liable with Northrop Grumman for its U.S. Federal income taxes for periods before the spin-off, and this several liability will continue after the spin-off. Current NGC will continue to act as tax agent for New NGC for U.S. Federal tax matters for periods before the spin-off and New NGC will pay all
costs and expenses associated with Current NGC retaining a tax officer for this purpose. Under the Tax Matters Agreement, Northrop Grumman will indemnify us for any portion of such taxes that we pay, subject to our obligation relating to audit adjustments, described below.

- We will be obligated to indemnify Northrop Grumman for audit adjustments that increase our U.S. Federal taxable income for periods before the spin-off and are of a nature that could result in correlative reductions to our taxable income for periods after the spin-off. This indemnity will apply only to the extent such adjustments increase our U.S. Federal income tax liability for periods before the spin-off by a total of more $2,000,000.

- Northrop Grumman generally will be responsible for our state, local and foreign income taxes for periods before the spin-off. We will, however, be obligated to indemnify Northrop Grumman for audit adjustments that increase such taxes, in accordance with the provisions of the Separation and Distribution Agreement relating to government contract matters.

- Northrop Grumman generally will be responsible for our taxes other than income taxes for periods before the spin-off. We will not indemnify Northrop Grumman for audit adjustments relating to non-income taxes.

The Tax Matters Agreement will contain special provisions to allocate tax liabilities resulting from the spin-off or related transactions not being tax-free (notwithstanding the IRS ruling and tax opinion stating that such transactions are tax-free). Under the Tax Matters Agreement, if our actions could be reasonably likely to cause the spin-off, the internal reorganization or any such related transactions not to be tax-free, we will be obligated to indemnify Northrop Grumman for the resulting taxes, professional fees and other expenses. The amount of any such indemnification could be substantial.

The Tax Matters Agreement will contain covenants intended to protect the tax-free status of the spin-off, the internal reorganization and related transactions. These covenants may restrict our ability to pursue strategic or other transactions that otherwise could maximize the value of our business and may discourage or delay a change of control that you may consider favorable. In general, we will covenant that, during the two-year period immediately after the spin-off:

- We will not take any action inconsistent with continuation of the shipbuilding business. The winding down of our operations at Avondale will not be considered inconsistent with continuation of the shipbuilding business.

- We will not sell, transfer or otherwise dispose of more than 30% of our gross assets in one or more transactions. Specified transactions, however, including the winding down of our operations at Avondale, will not count against the 30% limitation. These will include sales in the ordinary course of business, payments of interest and principal on indebtedness and stock repurchases to the extent described below.

- We will not repurchase more than 20% of our stock.

- We will not take any action (or permit actions by other persons if we can prevent them) that would result in one or more persons, in one or more transactions, selling more than 20% of our stock (including but not limited to stock repurchases).

- We will not take any action (or permit actions by other persons if we can prevent them) that would result in one or more persons, in one or more transactions, acquiring 40% or more of our stock (by vote or value) or of the stock of a successor in a merger or consolidation (or, in either case, rights to acquire such stock). Such transactions include mergers and acquisitions, sales of stock between shareholders, issuances of new stock, repurchases of stock, recapitalizations and amendments to our certificate of incorporation affecting shareholder voting rights. Specified transactions, however, will not count against the 40% limitation. These include public trading by persons owning less than 5% of our stock and compensatory grants of stock or stock options to directors or employees or exercises of such stock options.

We will covenant not to take any of the above actions unless either (i) Northrop Grumman requests and obtains from IRS a supplemental ruling, satisfactory in form and substance to Northrop Grumman, that the contemplated
action will not adversely affect the tax-free status of the transactions, or (ii) we obtain, from a nationally recognized law firm, an unqualified opinion to such effect. Both the law firm and the form and substance of the opinion must be satisfactory to Northrop Grumman.

Although valid as between the parties, the Tax Matters Agreement will not be binding on the IRS.

**Transition Services Agreement**

We intend to enter into a Transition Services Agreement with Northrop Grumman, under which Northrop Grumman or certain of its subsidiaries will provide us with certain services for a limited time to help ensure an orderly transition following the distribution.

**Services.** We anticipate that under the Transition Services Agreement, Northrop Grumman will provide certain enterprise shared services (including information technology, resource planning, financial, procurement and human resource services), benefits support services and other specified services to us. We expect that these services will be provided at cost, as determined by Northrop Grumman in a manner consistent with its cost accounting practices.

**Indemnification.** Under the Transition Services Agreement, we will release and indemnify Northrop Grumman and its affiliates for losses arising from or relating to the provision or use of any service or product provided under the Transition Services Agreement.

**Term.** We expect that the Transition Services Agreement will become effective on the distribution date, and will remain in effect until the expiration of the last time period for the performance of services thereunder, which we expect generally to be no longer than 12 months from the distribution date.

**Termination.** Each party will be permitted to terminate the Transition Services Agreement if the other party breaches any of its significant obligations under the agreement and does not cure such breach within 30 days of receiving written notice from the other party.

**Other Agreements**

**NGSC Guaranty Performance, Indemnity and Termination Agreement.** We intend to enter into the Guaranty Performance Agreement with NGSC, pursuant to which we will agree to comply on behalf of NGSC with all of its guarantee obligations in relation to the $83.7 million of Revenue Bonds, which were issued for our benefit, to indemnify NGSC for all costs arising out of or related to its guarantee obligations of the Revenue Bonds and to cause NGSC’s guarantee obligations to terminate or to cause credit support to be provided in the event of a change of control of HII. For any period of time between a change of control and the termination of NGSC’s guarantee obligations, we will be required to cause credit support to be provided for NGSC’s guarantee obligations in the form of one or more letters of credit in an amount reasonably satisfactory to NGSC to support the payment of all principal, interest and any premiums under the Revenue Bonds. In addition, so long as NGSC has any liability under the guaranty, we will be required to pay a fee equal to 1% per annum of the aggregate principal amount of the Revenue Bonds outstanding unless we are providing credit support for NGSC’s obligations under the guaranty. For a description of the Revenue Bonds, see “Description of Material Indebtedness—Economic Development Revenue Bonds—Guaranty.”

**Related Party Transactions**

**Policy and Procedures Governing Related Person Transactions**

Our board of directors will adopt a written policy and procedures for the review, approval and ratification of transactions to which we are a party and the aggregate amount involved in the transaction will or may be expected to exceed $100,000 in any year if any director, director nominee, executive officer, greater-than-5% beneficial owner or their respective immediate family members have or will have a direct or indirect interest.

The policy will provide that the Governance Committee reviews transactions subject to the policy and determines whether or not to approve or ratify those transactions. In doing so, the Governance Committee takes into account, among other factors it deems appropriate, whether the transaction is on terms that are no less favorable to
the company than terms generally available to an unaffiliated third party under the same or similar circumstances, the extent of the related person’s interest in the transaction, the materiality of the proposed related person transaction, the actual or perceived conflict of interest between us and the related person, the relationship of the proposed transaction to applicable state corporation and fiduciary obligation laws and rules, disclosure standards, our Corporate Governance Guidelines and Standards of Business Conduct, and the best interests of us and our stockholders.

The Governance Committee will adopt standing pre-approvals under the policy for transactions with related persons. Pre-approved transactions include, but are not limited to: (a) employment of executive officers where (i) the officer’s compensation is required to be reported in the Proxy Statement or (ii) the executive officer is not an immediate family member of another executive officer or director, the related compensation would have been reported in the Proxy Statement if the officer was a “named executive officer” and the Compensation Committee approved such compensation; (b) director compensation where such compensation is required to be reported in the Proxy Statement and the arrangements have been approved by the board of directors; (c) certain transactions with other companies where the related person’s only relationship with the other company is as a director, employee or beneficial owner of less than 10% of that company’s shares and the aggregate amount involved does not exceed the greater of $1 million or 2% of that company’s total annual revenues; (d) certain of our charitable contributions where the related person’s only relationship is as an employee or director of the charitable entity and where the aggregate amount does not exceed the lesser of $1 million or 2% of the charitable entity’s total annual receipts; (e) transactions where the related person’s interest derives solely from his or her ownership of common stock of the company and all stockholders receive proportional benefits; (f) transactions involving competitive bids; (g) regulated transactions; and (h) certain banking-related services.

The policy requires each director and executive officer to complete an annual questionnaire to identify his or her related interests and persons, and to notify the Office of the General Counsel of changes in that information. Based on that information, the Office of the General Counsel will maintain a master list of related persons for purposes of tracking and reporting related person transactions.
DESCRIPTION OF MATERIAL INDEBTEDNESS

From and after the spin-off, we and Northrop Grumman will, in general, each be responsible for the debts, liabilities and obligations related to the business or businesses that it owns and operates following consummation of the spin-off, except as set forth below. See “Certain Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-OFF.”

In connection with the internal reorganization and prior to the spin-off, the outstanding intercompany notes, plus accrued and unpaid interest, will be contributed to our capital. These notes are payable on demand and include $537 million of principal with an annual interest rate of 5% and $178 million of principal with an annual interest rate of 4.55%.

In addition to new debt incurred prior to the spin-off, our obligations to the MBFC under two loan agreements in connection with certain economic development revenue bonds and industrial revenue bonds issued by the MBFC for our benefit will continue following the spin-off, as described below. We have summarized selected provisions of the loan agreements, indentures and guaranties below. The summary is not complete and does not describe every aspect of the loan agreements, indentures or guaranties. Copies of the loan agreements, indentures and guaranties, as defined below, have been filed as exhibits to the registration statement of which this information statement is a part. You should read the more detailed provisions of the loan agreements, indentures and the guaranties, including the defined terms, for provisions that may be important to you.

HII Debt

In connection with the anticipated spin-off, we issued $600 million aggregate principal amount of 6.875% Senior Notes due March 15, 2018 (the “2018 notes”), and $600 million aggregate principal amount of 7.125% Senior Notes due March 15, 2021 (the “2021 notes,” and, collectively, the “notes”) under an indenture, dated March 11, 2011, between us and The Bank of New York Mellon, as trustee. Proceeds from this offering will be placed in an escrow account pending completion of certain steps of the internal reorganization.

Optional Redemption. We may redeem some or all of the 2018 notes at any time prior to March 15, 2015 and some or all of the 2021 notes at any time prior to March 15, 2016 at a price equal to 100% of the principal amount of such notes plus accrued and unpaid interest plus a “make-whole” premium. We may redeem any of the 2018 notes beginning on March 15, 2015 and any of the 2021 notes beginning on March 15, 2016 at specified redemption prices. If, before March 15, 2014, 65% of the aggregate principal amount of the 2018 notes originally issued remains outstanding, we may redeem up to 35% of such series with the proceeds of certain offerings of our common stock at 106.875% of the principal amount plus accrued interest. If, before March 15, 2014, 65% of the aggregate principal amount of the 2021 notes originally issued remains outstanding, we may redeem up to 35% of such series with the proceeds of certain offerings of our common stock at 107.125% of the principal amount plus accrued interest.

Mandatory Redemption. In the event that by June 30, 2011, any of the conditions for the release of the escrowed proceeds of the notes offering has not occurred, or in the event the board earlier determines that such conditions will not be satisfied by such date, we will be required to redeem the notes five business days thereafter at a price equal to the issue price of the notes, together with accrued yield and accrued interest on the notes from the issue date to but excluding the date of redemption.

In addition, in the event that the spin-off is not consummated within five business days after the date that the proceeds from the notes offering are released from escrow, we will be required to redeem the notes on the date that is five business days thereafter, at a cash redemption price equal to the issue price of the notes, plus the accrued yield and accrued interest to the date of redemption.

Covenants. The terms of the notes restrict our ability and the ability of certain of our subsidiaries to: incur additional indebtedness, create liens, pay dividends or make distributions in respect of capital stock, purchase or redeem capital stock, make investments or certain other restricted payments, sell assets, enter into transactions with stockholders or affiliates and effect a consolidation or merger. However, these limitations will be subject to a number of important qualifications and exceptions.
Guarantees. The performance of our obligations pursuant to the notes, including any repurchase obligations resulting from a change of control, are unconditionally guaranteed, jointly and severally, on an unsecured basis, by each of our existing and future domestic restricted subsidiaries that guarantees debt under the HII Credit Agreement. The guarantees will rank equally with all other unsecured and unsubordinated indebtedness of the guarantors.

Events of Default. The indenture provides that an “Event of Default” occurs with respect to notes of a series if: (a) failure by us to pay when due the principal required to be paid; (b) failure by us to pay within 30 days of the date due the interest required to be paid; (c) failure by us, after 45 days of written notice to us by the trustee or to us and the trustee by holders of 25% or more in aggregate principal amount of notes of such series, to make an Offer to Purchase, or to thereafter accept pay for notes tendered; (d) failure by us to perform or breach by us of any other of the covenants or agreements under the indenture for a period of 60 days after written notice to us by the trustee or to us and the trustee by holders of 25% or more in aggregate principal amount of notes of such series specifying such failure and requesting that it be remedied; (e) there occurs, with respect to our debt or that of any of our restricted subsidiaries with an aggregate of at least $50 million of debt, an event of default with respect to such debt, or failure to make a principal payment that is not made, waived or extended within the applicable grace period; (f) one or more final judgments rendered against us or any of our restricted subsidiaries are not paid or discharged, and there is a period of 60 consecutive days in which final judgments or orders outstanding and not paid or discharged exceed $50 million; (g) certain bankruptcy defaults with respect to us or any significant subsidiary; (h) any note guaranty of a significant subsidiary ceases to be in full force and effect; and (i) at any time prior to the Completion Date, we default under the escrow agreement.

HII Credit Facility

In connection with the spin-off, we entered into the HII Credit Facility with third-party lenders. The HII Credit Facility comprises (i) a five-year term loan facility of $775 million, to be funded substantially contemporaneously with the completion of the internal reorganization, and (ii) a revolving credit facility of $650 million, which, subject to the satisfaction of certain funding conditions, may be drawn upon during a period of five years from the date of the funding pursuant to clause (i) above, and which includes a commitment fee equal to 0.5% on the average daily unused portion of the facility. The revolving credit facility includes a letter of credit subfacility of $350 million, and a swingline loan subfacility of $100 million. The revolving credit facility will have a variable interest rate on drawn borrowings based on LIBOR plus a spread based upon leverage ratio, which spread at the current leverage ratio is 2.5% and which may vary between 2.0% and 3.0%, and a commitment fee rate on the unutilized balance based on leverage ratio, which fee rate at the current leverage ratio is 0.5% and which may vary between 0.35% and 0.5%. At the time of the spin-off, approximately $137 million of letters of credit are expected to be issued but undrawn, and the remaining $513 million will be unutilized.

The term loan facility is subject to amortization in 3-month intervals from the funding date, expected to be in an aggregate amount equal to (i) 5% during the first year and the second year, (ii) 10% during the third year, (iii) 15% during the fourth year and (iv) 65% payable during the fifth year (of which 5% shall be payable on each of the first 3 quarterly payment dates during such year, and the balance shall be payable on the term maturity date). Loans will bear interest at a rate equal to LIBOR plus a spread of 2.50% (or the base rate plus 1.50%), which spread is expected to vary between 2.0% and 3.0% based upon changes to our leverage ratio.

Security. The HII Credit Facility is secured by a perfected first priority security interest in substantially all of our assets, and substantially all assets of the guarantors, subject to certain exceptions.

Covenants. The loan agreement contains customary affirmative covenants, including, but not limited to, those related to our maintaining our corporate existence, complying with applicable laws, payment of taxes, and ownership of property; and customary negative covenants, including but not limited to limitations on (a) sales of assets, (b) mergers, consolidations, liquidations and dissolutions, (c) indebtedness, (d) liens, (e) dividends, (f) acquisitions, (g) investments, (h) prepayments and modifications of subordinated debt and unsecured bonds, (i) transactions with affiliates, (j) sale-leasebacks, (k) negative pledges and (l) changes of lines of business.

Financial Covenants. The loan agreement contains certain financial covenants, which include (a) a maximum total leverage ratio, defined as the ratio of total indebtedness to EBITDA of 4.50:1 as of the first quarterly period

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following the spinoff, incrementally decreasing to 2.75:1 as of March 31, 2015 and thereafter, (b) a minimum interest coverage ratio, defined as the ratio of EBITDA to total interest expense, net of interest income of 3.50:1 as of the first quarterly period following the spinoff, incrementally increasing to 4.50:1 as of March 31, 2015 and thereafter and (c) a limitation on capital expenditures of $350 million for the year 2011, incrementally decreasing to $200 million as of 2015 and thereafter.

Guarantees. Each of our direct and indirect, existing and future, domestic wholly-owned subsidiaries, except for those which are specifically designated as unrestricted subsidiaries, will be guarantors under the HII Credit Facility. Current NGC is designated as unrestricted and is not a guarantor under the HII Credit Facility.

Mandatory Prepayment. Mandatory prepayments of the term loan will be required from the net cash proceeds from any sale or other disposition of our assets or those of our subsidiaries (subject to certain exceptions and reinvestment rights), the net cash proceeds from issuances or incurrences of debt by us or our subsidiaries (other than permitted indebtedness), and a portion of any excess cash flow, as such term is defined in the loan agreement, of us or our subsidiaries (subject to certain agreed upon reductions).

Events of Default. The loan agreement provides that the happening of one or more of the following events will constitute an “Event of Default” (subject to certain thresholds and exceptions): (a) nonpayment of principal when due; (b) nonpayment of interest, fees or other amounts when due; (c) material inaccuracy of representations and warranties at the time made or reaffirmed; (d) violation of a covenant; (e) cross-default on material indebtedness; (f) bankruptcy events; (g) certain ERISA events; (h) material judgments which, absent a stay due to appeal or otherwise, remain unpaid more than thirty days following execution of the judgment; (i) actual or asserted invalidity of any HII Credit Facility guarantee, security document or subordination provisions or non-perfection of any security interest; (j) a change of control; and (k) failure of the spin-off to occur within five business days of the funding date.

Gulf Opportunity Zone Industrial Revenue Bonds

Under a loan agreement, dated December 1, 2006, between NGSS and the MBFC, we borrowed the proceeds of the MBFC’s issuance of $200 million of GO Zone IRBs at an interest rate of 4.55% due 2028.

Optional Redemption. The GO Zone IRBs may be redeemed by the issuer on or after December 1, 2016, in whole at any time, or in part from time to time as requested by us, but, if in part, by lot or in such other random manner as the trustee shall determine, at a price equal to 100% of the principal amount thereof plus accrued interest to the date of redemption.

Optional Mandatory Tender for Purchase. The GO Zone IRBs are subject to a mandatory tender for purchase on or after December 1, 2016, as requested by us, at 100% of the principal outstanding. If any GO Zone IRBs are purchased by us, such GO Zone IRBs will remain outstanding and may be offered for sale in a different interest rate mode.

In connection with the potential spin-off, on November 30, 2010, NGSB purchased $178.4 million of the outstanding principal amount of GO Zone IRBs pursuant to a tender offer. NGSB used cash on hand provided by Northrop Grumman to purchase the GO Zone IRBs and submitted the purchased bonds to the trustee for cancellation. The remaining $21.6 million of GO Zone Bonds mature in 2028 and accrue interest at a fixed rate of 4.55% (payable semi-annually).

Covenants. The loan agreement contains customary affirmative and negative covenants, including those related to NGSS (a) maintaining its corporate existence, (b) maintaining and properly insuring certain buildings and immovable equipment at our shipbuilding complex located in Pascagoula and Gulfport, Mississippi (collectively, the “GO Zone Project”), (c) promptly paying, as the same become due, all taxes and assessments related to the GO Zone Project, and (d) operating the GO Zone Project for its designated purposes until the date on which no GO Zone IRBs are outstanding.

Guaranty. The performance of our payment obligations in connection with the GO Zone IRBs, including payment of any and all amounts which may come due under the indenture, the GO Zone IRBs, or the loan agreement, is guaranteed by Current NGC.

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After the spin-off, the payment obligations, under the guaranty, will remain with Current NGC, which will be a wholly owned subsidiary of HII. We intend to enter into a Performance and Indemnity Agreement with Current NGC, pursuant to which we will agree to comply with all of Current NGC’s obligations under this guaranty and to indemnify Current NGC for any costs, losses or damages arising out of, or related to, this guaranty.

Events of Default. The loan agreement provides that the happening of one or more of the following events will constitute an “Event of Default”: (a) failure by us to pay when due the amounts required to be paid; (b) failure by us to pay within 30 days of the date due any other amounts required to be paid pursuant to the loan agreement; (c) failure by us to observe and perform any other of the covenants, conditions or agreements under the loan agreement for a period of 90 days after written notice specifying such failure and requesting that it be remedied from the issuer or the trustee, unless extended; and (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of Northrop Grumman Ship Systems, Inc.

Economic Development Revenue Bonds

Under a loan agreement, dated May 1, 1999, between Ingalls and the MBFC, we borrowed the proceeds of the MBFC’s issuance of $83.7 million of Revenue Bonds at an interest rate of 7.81% due 2024.

Optional Redemption. The Revenue Bonds are redeemable, in whole or in part, at the option of the issuer, at our direction, at any time at a redemption price equal to the greater of (a) 100% of the principal amount of the Revenue Bonds or (b) as determined by an independent banker, the sum of the present values of the remaining scheduled payments of principal and interest thereon discounted to the date of redemption on a semiannual basis, plus, in each case, accrued interest thereon to the date of redemption. The discount rate is based upon a comparable Treasury yield plus 0.25%.

Covenants. The loan agreement contains customary affirmative and negative covenants, including those related to Ingalls (a) maintaining its corporate existence, (b) maintaining and properly insuring certain port facilities at our shipbuilding complex located in Jackson County, Mississippi (collectively, the “Ingalls Project”), (c) promptly paying, as the same become due, all taxes and assessments related to the Ingalls Project, and (d) operating the Ingalls Project for its designated purposes until the date on which no Revenue Bonds are outstanding.

Guaranty. The performance of the payment obligations in connection with the Revenue Bonds, including our payment for the principal and interest under the Revenue Bonds, which were issued for our benefit, and all other amounts due under the loan agreement, is guaranteed by NGSC, a subsidiary of Northrop Grumman. We intend to enter into the Guaranty Performance Agreement with NGSC, pursuant to which we will agree, among other things, to comply with all of NGSC’s obligations under this guaranty, to indemnify NGSC for any costs, losses or damages arising out of or related to this guaranty and to terminate NGSC’s guaranty obligations or cause credit support to be provided in the event we experience a change of control. For a description of the Guaranty Performance Agreement, see “Certain Relationships and Related Party Transactions—Other Agreements.”

Events of Default. The loan agreement provides that the happening of one or more of the following events will constitute an “Event of Default” under the loan agreement: (a) failure by us to pay any loan repayment installment required to be paid with respect to the principal or premium, if any, on any bond on the date and at the time specified in the loan agreement; (b) failure by us to pay any amount required to be paid with respect to interest on any bond on the date and at the time specified in the loan agreement; (c) failure by us to observe and perform any other of its covenants, conditions or agreements under the loan agreement for a period of 30 days after written notice specifying such failure and requesting that it be remedied from the issuer or the trustee, unless extended; (d) certain events of bankruptcy, insolvency, dissolution, liquidation, winding-up, reorganization or other similar events of Ingalls; or (e) the occurrence of an “Event of Default” under the indenture. Additionally, failure by NGSC to comply with its covenants under the guaranty will be a default under the guaranty and under the indenture, which, if not cured within the applicable period, could potentially result in the trustee taking action against us. We will not be indemnified by NGSC for any actions it takes that lead to a breach of the guaranty and will not obtain any contractual undertaking by NGSC to comply with such covenants.
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the date of this information statement, all of the outstanding shares of our common stock are beneficially owned by Northrop Grumman. After the spin-off, Northrop Grumman will not own any shares of our common stock.

The following table provides information with respect to the anticipated beneficial ownership of our common stock by:

- each of our stockholders who we believe (based on the assumptions described below) will beneficially own more than 5% of HII’s outstanding common stock;
- each of our current directors and its directors following the spin-off;
- each officer named in the summary compensation table; and
- all of our directors and executive officers following the spin-off as a group.

Except as otherwise noted below, we based the share amounts on each person’s beneficial ownership of Northrop Grumman common stock on March 11, 2011, giving effect to a distribution ratio of one share of our common stock for every six shares of Northrop Grumman common stock held by such person.

To the extent our directors and executive officers own Northrop Grumman common stock at the record date of the spin-off, they will participate in the distribution on the same terms as other holders of Northrop Grumman common stock.

Except as otherwise noted in the footnotes below, each person or entity identified in the tables below has sole voting and investment power with respect to the securities owned by such person.

Immediately following the spin-off, we estimate that approximately 48.8 million shares of our common stock will be issued and outstanding, based on the number of shares of Northrop Grumman common stock expected to be outstanding as of the record date. The actual number of shares of our common stock outstanding following the spin-off will be determined on March 30, 2011, the record date.

Stock Ownership of Certain Beneficial Owners

We anticipate, based on information to our knowledge as of December 31, 2010, that the following entities will beneficially own more than 5% of our common stock after the spin-off.

<table>
<thead>
<tr>
<th>Name and Address of Beneficial Owner</th>
<th>Amount and Nature of Beneficial Ownership</th>
<th>Percent of Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Street Bank and Trust Company</td>
<td>5,489,233 shares</td>
<td>11.30%(a)</td>
</tr>
<tr>
<td>One Lincoln Street, Boston, MA 02111</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital World Investors</td>
<td>3,906,291 shares</td>
<td>8.00%(b)</td>
</tr>
<tr>
<td>333 South Hope Street, Los Angeles, CA 90071</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BlackRock Inc.</td>
<td>3,324,427 shares</td>
<td>7.94%(c)</td>
</tr>
<tr>
<td>40 East 52nd Street, New York, NY 10022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AllianceBernstein LP</td>
<td>3,864,638 shares</td>
<td>6.80%(d)</td>
</tr>
<tr>
<td>1245 Avenue of the Americas, New York, NY 10105</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) This information is derived from information regarding Northrop Grumman stock in a Schedule 13G filed with the SEC by State Street Bank and Trust Company (“State Street”) on February 14, 2011. According to State Street, as of December 31, 2010, State Street had shared voting power over 32,935,400 shares of Northrop Grumman Stock and shared dispositive power over 32,837,370 shares of Northrop Grumman Stock. This total includes 21,711,393 shares of Northrop Grumman stock held in the Defined Contributions Master Trust for the Northrop Grumman Savings Plan for which State Street acts as a trustee.

(b) This information is derived from information regarding Northrop Grumman stock in a Schedule 13G/A filed with the SEC by Capital World Investors, a division of Capital Research and Management Company, on

(c) This information is derived from information regarding Northrop Grumman stock in a Schedule 13G/A filed with the SEC by BlackRock, Inc. (which acquired Barclays Global Investors effective December 1, 2009) on February 7, 2011. According to BlackRock, Inc., as of December 31, 2010, BlackRock, Inc. had sole voting power over 23,187,826 shares of Northrop Grumman stock and sole dispositive power over 23,187,826 shares of Northrop Grumman stock.

(d) This information is derived from information regarding Northrop Grumman stock in a Schedule 13G/A filed with the SEC by AllianceBernstein LP on February 9, 2011. According to AllianceBernstein LP, as of December 31, 2010, AllianceBernstein LP had sole voting power over 15,989,780 shares of Northrop Grumman stock, sole dispositive power over 19,931,887 shares of Northrop Grumman stock and shared dispositive power over 14,675 shares of Northrop Grumman stock.

### Stock Ownership of Officers and Directors

<table>
<thead>
<tr>
<th>Shares of Common Stock Beneficially Owned</th>
<th>Shares Subject to Option(1)</th>
<th>Share Equivalents(2)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Employee Directors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thomas B. Fargo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robert Bruner</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Artur Davis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anastasia Kelly</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paul D. Miller</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tom Schievelbein</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Karl von der Heyden</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Named Executive Officers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Michael Petters</td>
<td>12,069</td>
<td>71,217</td>
<td>121</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>2,221</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>1,171</td>
<td>1,245</td>
<td>213</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>3,419</td>
<td>4,078</td>
<td>85</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>772</td>
<td></td>
<td>439</td>
</tr>
<tr>
<td><strong>Directors and Executive Officers as a Group</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(12 persons)</td>
<td>20,134</td>
<td>76,540</td>
<td>1,836</td>
</tr>
</tbody>
</table>

(1) These shares subject to option are either currently exercisable or exercisable within 60 days as of March 11, 2011.

(2) Share equivalents for directors represent non-voting deferred stock units acquired under the 1993 Directors Plan some of which are paid out in shares of common stock at the conclusion of a director-specified deferral period, and others are paid out upon termination of the director’s service on the Board of Directors. The HII NEOs hold share equivalents with pass-through voting rights in the Northrop Grumman Savings Plan.
DESCRIPTION OF CAPITAL STOCK

Authorized Capital Stock

Prior to the distribution date, our board of directors and Northrop Grumman, as our sole stockholder, will approve and adopt the Restated Certificate of Incorporation, and our board of directors will approve and adopt the Restated Bylaws. Under the Restated Certificate of Incorporation, authorized capital stock will consist of 150 million shares of our common stock, par value $.01 per share, and 10 million shares of our preferred stock, par value $.01 per share.

Common Stock

Immediately following the spin-off, we estimate that approximately 48.8 million shares of our common stock will be issued and outstanding, based on the number of shares of Northrop Grumman common stock expected to be outstanding as of the record date. The actual number of shares of our common stock outstanding following the spin-off will be determined on March 30, 2011, the record date.

Dividend Rights. Dividends may be paid on our common stock and on any class or series of stock entitled to participate with our common stock as to dividends, but only when and as declared by our board of directors and only if full dividends on all then-outstanding series of our preferred stock for the then current and prior dividend periods have been paid or provided for.

Voting Rights. Each holder of our common stock is generally entitled to one vote per share on all matters submitted to a vote of stockholders and does not have cumulative voting rights for the election of directors.

Liquidation. If we liquidate, holders of our common stock are entitled to receive all remaining assets available for distribution to stockholders after satisfaction of our liabilities and the preferential rights of any our preferred stock that may be outstanding at that time.

Other Rights. The outstanding shares of our common stock are fully paid and nonassessable. The holders of our common stock do not have any preemptive, conversion or redemption rights.

Preferred Stock

Under the Restated Certificate of Incorporation, our board of directors is authorized to issue our preferred stock from time to time, in one or more series, and to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preference and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. See “—Anti-Takeover Effects of Provisions of Our Certificate of Incorporation and Bylaws.”

Our preferred stock will, when issued, be fully paid and nonassessable and have no preemptive rights. Our preferred stock will have the dividend, liquidation, and voting rights described below, unless we indicate otherwise in the applicable certificate of designation relating to a particular series of our preferred stock.

Dividend Rights. Holders of our preferred stock will receive, when, as and if declared by our board of directors, dividends at rates and on the dates described in the applicable certificate of designations. Each dividend will be payable to the holders of record as they appear on our stock record books. Dividends on any series of our preferred stock may be cumulative or noncumulative.

Voting Rights. Unless indicated otherwise in the applicable certificate of designation relating to a particular series of our preferred stock or expressly required by law, the holders of our preferred stock will not have any voting rights.

Liquidation. If we liquidate, dissolve or wind up our affairs, either voluntarily or involuntarily, the holders of each series of our preferred stock will be entitled to receive liquidation distributions. These will be in the amounts set forth in the applicable certificate of designation, plus accrued and unpaid dividends and, if the series of our preferred stock is cumulative, accrued and unpaid dividends for all prior dividend periods. If we do not pay in full all amounts payable on any series of our preferred stock, the holders of our preferred stock will share proportionately.
with any equally ranked securities in any distribution of our assets. After the holders of any series of our preferred stock are paid in full, they will not have any further claim to any of our remaining assets.

Redemption. A series of our preferred stock may be redeemable, in whole or in part, at our option or at the option of the holder of the stock, and may be subject to mandatory redemption pursuant to a sinking fund, under the terms described in any applicable certificate of designation.

In the event of partial redemptions of our preferred stock, our board of directors or its committee will determine the method for selecting the shares to be redeemed, which may be by lot or pro rata or by any other method our board of directors or its committee determines to be equitable.

On and after a redemption date, unless we default in the payment of the redemption price, dividends will cease to accrue on shares of our preferred stock which were called for redemption. In addition, all rights of holders of the shares of our preferred stock will terminate except for the right to receive the redemption price.

Conversion and Exchange. The applicable certificate of designation for any series of our preferred stock will state the terms and conditions, if any, on which shares of that series are convertible into or exchangeable for our common stock or other securities.

Anti-Takeover Effects of Provisions of Our Certificate of Incorporation and Bylaws

The Restated Certificate of Incorporation, the Restated Bylaws and Delaware statutory law contain certain provisions that could make the acquisition of our company by means of a tender offer, a proxy contest or otherwise more difficult. The description set forth below is intended as a summary only and is qualified in its entirety by reference to the Restated Certificate of Incorporation and the Restated Bylaws which are attached as exhibits to our Registration Statement on Form 10 under the Exchange Act relating to our common stock.

Classified Board of Directors. The Restated Certificate of Incorporation provides for a classified board of directors consisting of three classes of directors. Directors of each class are chosen for three-year terms upon the expiration of their current terms and each year one class of our directors will be elected by our stockholders. The terms of the first, second and third classes will expire in 2012, 2013 and 2014, respectively.

Number of Directors; Filling Vacancies; Removal. The Restated Certificate of Incorporation and the Restated Bylaws provide that our business and affairs will be managed by and under our board of directors. The Restated Certificate of Incorporation and the Restated Bylaws provide that the board of directors shall consist of not less than five or more than fifteen members, the exact number of which will be fixed from time to time exclusively by a resolution duly adopted by the board of directors. In addition, the Restated Certificate of Incorporation and the Restated Bylaws provide that any vacancy on our board of directors that results from any increase in the number of directors, or any other vacancies, may be filled solely by the affirmative vote of a majority of the remaining directors then in office and entitled to vote thereon, even though less than a quorum of the board of directors. The Restated Certificate of Incorporation also provides that any director, or the entire board of directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 66²/₃% of the total voting power of the outstanding shares of capital stock of the company entitled to vote thereon, voting as a single class.

Notwithstanding the foregoing, the Restated Certificate of Incorporation and the Restated Bylaws provide that whenever the holders of any class or series of our preferred stock have the right to elect additional directors under specified circumstances, the election, removal, term of office, filling of vacancies and other features of each directorship will be governed by the terms of the certificate of designation applicable thereto.

Special Meetings. The Restated Certificate of Incorporation and the Restated Bylaws provide that, subject to the terms of any class or series of our preferred stock, special meetings of the stockholders may be called at any time only by the board of directors (or an authorized committee thereof) or by the chairperson of the board of directors.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals. The Restated Bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election to the board of directors, or to bring other business before an annual meeting of stockholders (the “Stockholder Notice Procedure”).
The Stockholder Notice Procedure provides that nominations of persons for election to the board of directors and the proposal of business to be transacted by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the company’s proxy materials with respect to such meeting, (ii) by or at the direction of our board of directors or (iii) by any stockholder of record of our company (a “Record Stockholder”) at the time of the giving of the notice required, who is entitled to vote at the meeting and who has complied with the proper notice procedures. Under the Stockholder Notice Procedure, for a stockholder notice in respect of the annual meeting of stockholders to be timely, such notice must be received by our Secretary at our principal executive offices not less than 90 or more than 120 days prior to the one-year anniversary of the date on which the company first mailed its proxy materials; provided, however, that if the annual meeting is convened more than 30 days prior to or delayed by more than 30 days after the one-year anniversary of the preceding year’s annual meeting, or if no annual meeting was held in the preceding year, notice by the Record Stockholder to be timely must be so received not later than the close of the business on the later of (x) the 135th day prior to such annual meeting or (y) the 10th day following the day on which the public announcement of the date of such meeting is first made by the company. Notwithstanding anything in the preceding sentence to the contrary, in the event that the number of directors to be elected to the board of directors is increased and we do not make a public announcement naming all of the nominees for director or specifying the size of the increased board of directors at least 10 days before the last day a Record Stockholder may deliver a notice of nomination in accordance with the preceding sentence, a Record Stockholder’s notice will also be considered timely, but only with respect to nominees for any new positions created by such increase, if it is received by our Secretary at our principal executive offices not later than the close of business on the 10th day following the day on which we first make such public announcement.

Under the Stockholder Notice Procedure, a Record Stockholder’s notice proposing to nominate a person for election as a director or bring other business before an annual meeting of stockholders must contain certain information, as set forth in the Restated Bylaws. Only persons who are nominated in accordance with the Stockholder Notice Procedures will be eligible to serve as directors and only such business which has been brought before the meeting in accordance with these Stockholder Notice Procedures will be conducted at an annual meeting of stockholders.

By requiring advance notice of nominations by stockholders, the Stockholder Notice Procedure will afford our board of directors an opportunity to consider the qualifications of the proposed nominees and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders about such qualifications. By requiring advance notice of other proposed business, the Stockholder Notice Procedure will also provide a more orderly procedure for conducting annual meetings of stockholders and, to the extent deemed necessary or desirable by our board of directors, will provide our board of directors with an opportunity to inform stockholders, prior to such meetings, of any business proposed to be conducted at such meetings, together with any recommendations as to our board of directors’ position regarding action to be taken with respect to such business, so that stockholders can better decide whether to attend such a meeting or to grant a proxy regarding the disposition of any such business.

Contests for the election of directors or the consideration of stockholder proposals will be precluded if the proper procedures are not followed. Third parties may therefore be discouraged from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal.

Stockholder Action by Written Consent with Board Authorization. The Restated Certificate of Incorporation and the Restated Bylaws require authorization of our board of directors (or an authorized committee thereof) for action by written consent of the holders of the outstanding shares of stock having not less than the minimum voting power that would be necessary to authorize or take such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted, provided all other requirements of applicable law and the Restated Certificate of Incorporation have been satisfied.

Amendments to Certificate of Incorporation and Bylaws. The Restated Certificate of Incorporation provides that, in addition to any requirements of law and notwithstanding any other provision of the Restated Certificate of Incorporation or the Restated Bylaws of our company, the affirmative vote of at least 66⅔% in voting power of the issued and outstanding stock entitled to vote thereon, voting as a single class, will be required for our stockholders to amend or repeal, or adopt any provision inconsistent with, the provisions in the Restated Certificate of Incorporation or the Bylaws relating to the number, term and election of directors, vacancies on our board of directors, removal of
directors, stockholder action by written consent, calling of special meetings, advance notice of stockholder proposals, liability of directors, indemnification, amendments to the Restated Certificate of Incorporation and amendments to the Restated Bylaws.

Stockholder Meetings. The Restated Bylaws provide that all meetings of stockholders will be conducted in accordance with such rules and procedures as our board of directors may determine subject to the requirements of applicable law and, as to matters not governed by such rules and procedures, as the chairperson of such meeting will determine. Such rules and procedures may include the establishment of an agenda, rules and procedures for maintaining order, limitations on attendance and participation relating to presence at the meeting of persons other than stockholders, restrictions on entry at the meeting after commencement thereof and the imposition of time limitations for questions by participants at the meeting.

Our Preferred Stock. The Restated Certificate of Incorporation authorizes our board of directors to provide for series of our preferred stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series.

We believe that the ability of our board of directors to issue one or more series of our preferred stock will provide us with flexibility in structuring possible future financings and acquisitions, and in meeting other corporate needs which might arise. The authorized shares of our preferred stock, as well as shares of common stock, will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. The NYSE currently requires stockholder approval as a prerequisite to listing shares in several instances, including where the present or potential issuance of shares could result in a 20% increase in the number of shares of common stock outstanding or in the amount of voting securities outstanding. If the approval of our stockholders is not required for the issuance of shares of our preferred stock or our common stock, our board of directors may determine not to seek stockholder approval.

Although our board of directors has no intention at the present time of doing so, it could issue a series of our preferred stock that could, depending on the terms of such series, impede the completion of a merger, tender offer or other takeover attempt. Our board of directors will make any determination to issue such shares based on its judgment as to the best interests of the company and our stockholders. Our board of directors, in so acting, could issue our preferred stock having terms that could discourage an acquisition attempt through which an acquiror may be able to change the composition of our board of directors, including a tender offer or other transaction that some, or a majority, of our stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over the then current market price of such stock.

Section 203 of the Delaware General Corporation Law

Section 203 of the Delaware General Corporation Law (the “DGCL”) provides that, subject to certain exceptions specified therein, a corporation shall not engage in any “business combination” with any “interested stockholder” for a three-year period following the time that such stockholder becomes an interested stockholder unless (i) prior to such time, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder, (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding certain shares) or (iii) on or subsequent to such time, the business combination is approved by the board of directors of the corporation and by the affirmative vote of at least 66²/³% of the outstanding voting stock which is not owned by the interested stockholder. Section 203 of the DGCL generally defines an “interested stockholder” to include (x) any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the relevant date and (y) the affiliates and associates of any such person. Section 203 of the DGCL generally defines a “business combination” to include (1) mergers and sales or other dispositions of 10% or more of the assets of the corporation with or to an interested stockholder, (2) certain
transactions resulting in the issuance or transfer to the interested stockholder of any stock of the corporation or its subsidiaries,
(3) certain transactions which would result in increasing the proportionate share of the stock of the corporation or its subsidiaries owned
by the interested stockholder and (4) receipt by the interested stockholder of the benefit (except proportionately as a stockholder) of any
loans, advances, guarantees, pledges, or other financial benefits.

Under certain circumstances, Section 203 of the DGCL makes it more difficult for a person who would be an “interested
stockholder” to effect various business combinations with a corporation for a three-year period, although the certificate of incorporation
or stockholder-adopted bylaws may exclude a corporation from the restrictions imposed thereunder. Neither the Restated Certificate of
Incorporation nor the Restated Bylaws exclude HII from the restrictions imposed under Section 203 of the DGCL. It is anticipated that
the provisions of Section 203 of the DGCL may encourage companies interested in acquiring us to negotiate in advance with our board
of directors since the stockholder approval requirement would be avoided if our board of directors approves, prior to the time the
stockholder becomes an interested stockholder, either the business combination or the transaction which results in the stockholder
becoming an interested stockholder.

Transfer Agent and Registrar

The registrar and transfer agent for our common stock is Computershare Trust Company, N.A.

Listing

Following the spin-off, we expect to have our common stock listed on the NYSE under the ticker symbol “HII.”

Liability and Indemnification of Directors and Officers

Elimination of Liability of Directors. The Restated Certificate of Incorporation provides that a director of our company will not be
liable to the company or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any
breach of the director’s duty of loyalty to the company or our stockholders, (ii) for acts or omissions not in good faith or which involve
intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (which concerns unlawful payments of
dividends, stock purchases or redemptions), or (iv) for any transaction from which the director derives an improper personal benefit. If the
DGCL is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the
company shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

While the Restated Certificate of Incorporation provides directors with protection from awards for monetary damages for breaches
of their duty of care, it does not eliminate such duty. Accordingly, the Restated Certificate of Incorporation will have no effect on the
availability of equitable remedies such as an injunction or rescission based on a director’s breach of his or her duty of care. The
provisions of the Restated Certificate of Incorporation described above apply to an officer of HII only if he or she is a director of HII and
is acting in his or her capacity as director, and do not apply to officers of HII who are not directors.

Indemnification of Directors, Officers, Employees and Agents. The Restated Bylaws provide that we will indemnify and hold
harmless, to the fullest extent authorized by the DGCL as it presently exists or may thereafter be amended, any person (an “Indemnitee”) who was or is made a party to any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative
(a “proceeding”), by reason of the fact that he or she is or was a director, officer, employee or agent of our company or while he or she is
or was serving at the request of the board of directors or an executive officer of our company as a director, officer, employee, agent or
trustee of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee
benefit plan, against all expense, liability and loss (including attorneys’ fees, judgments, fines, ERISA excise taxes or penalties and
amounts paid in settlement) actually and reasonably incurred or suffered by such Indemnitee in connection therewith. The Restated
Bylaws also provide that, notwithstanding the foregoing, but except as described in the second following paragraph, we will be required
to indemnify an Indemnitee in connection with a proceeding, or part thereof, initiated by such Indemnitee only if such proceeding, or
part thereof, was authorized by our board of directors.

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The Restated Bylaws further provide that we will pay the expenses incurred by an Indemnitee in defending or preparing for any proceeding in advance of its final disposition, provided however, that if the DGCL requires, such payment of expenses in advance of the final disposition of the proceeding will be made only upon delivery to our company of an undertaking containing such terms and conditions, including the requirement of security, as our board of directors deems appropriate, by or on behalf of such Indemnitee, to repay all amounts so advanced if it is ultimately determined by final judicial decision from which there is no further right to appeal that the Indemnitee is not entitled to be indemnified under the relevant section of the Restated Bylaws or otherwise.

The Restated Bylaws also expressly state that we may grant additional rights to indemnification and to the advancement of expenses to any of our employees or agents to the fullest extent permitted by law.
WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a Form 10 with respect to the shares of common stock that Northrop Grumman stockholders will receive in the distribution. This information statement does not contain all of the information contained in the Form 10 and the exhibits and schedules to the Form 10. Some items are omitted in accordance with the rules and regulations of the SEC. For additional information relating to us and the spin-off, reference is made to the Form 10 and the exhibits to the Form 10, which are on file at the offices of the SEC. Statements contained in this information statement as to the contents of any contract or other document referred to are not necessarily complete and in each instance, if the contract or document is filed as an exhibit, reference is made to the copy of the contract or other documents filed as an exhibit to the Form 10. Each statement is qualified in all respects by the relevant reference.

You may inspect and copy the Form 10 and the exhibits to the Form 10 that we have filed with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information on the Public Reference Room. In addition, the SEC maintains an Internet site at www.sec.gov, from which you can electronically access the Form 10, including the exhibits and schedules to the Form 10.

We will maintain an Internet site at www.huntingtoningalls.com. Our Internet site and the information contained on that site, or connected to that site, are not incorporated into the information statement or the registration statement on Form 10.

As a result of the distribution, we will be required to comply with the full informational requirements of the Exchange Act. We will fulfill our obligations with respect to these requirements by filing periodic reports and other information with the SEC.

We plan to make available, free of charge, on our Internet site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 of the Exchange Act and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC.

You should rely only on the information contained in this information statement or to which we have referred you. We have not authorized any person to provide you with different information or to make any representation not contained in this information statement.
<table>
<thead>
<tr>
<th>INDEX TO FINANCIAL STATEMENTS</th>
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</thead>
</table>

**NORTHROP GRUMMAN SHIPBUILDING**  
Report of Independent Registered Public Accounting Firm  
Consolidated Statements of Operations  
Consolidated Statements of Financial Position  
Consolidated Statements of Cash Flows  
Consolidated Statements of Changes in Equity  
Notes to Consolidated Financial Statements  

**HUNTINGTON INGALLS INDUSTRIES, INC.**  
Report of Independent Registered Public Accounting Firm  
Statement of Financial Position  
Note to Statement of Financial Position

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To the Board of Directors of
Northrop Grumman Corporation
Los Angeles, California

We have audited the accompanying consolidated statements of financial position of Northrop Grumman Shipbuilding and subsidiaries (the “Company”), a wholly owned subsidiary of Northrop Grumman Corporation (the “Corporation”), as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northrop Grumman Shipbuilding and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the accompanying consolidated financial statements have been derived from the consolidated financial statements and accounting records of the Corporation. The consolidated financial statements also include expense allocations for certain corporate functions historically provided by the Corporation. These allocations may not be reflective of the actual expense which would have been incurred had the Company operated as a separate entity apart from the Corporation.

DELOITTE & TOUCHE LLP
Virginia Beach, Virginia
February 8, 2011
(February 21, 2011 as to Note 13)
## NORTHROP GRUMMAN SHIPBUILDING

### CONSOLIDATED STATEMENTS OF OPERATIONS

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
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<tbody>
<tr>
<td></td>
<td>2010</td>
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<tr>
<td>Sales and Service Revenues</td>
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<tr>
<td>Product sales</td>
<td>$5,798</td>
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<tr>
<td>Service revenues</td>
<td>925</td>
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<tr>
<td>Total sales and service revenues</td>
<td>6,723</td>
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<tr>
<td>Cost of Sales and Service Revenues</td>
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<tr>
<td>Cost of product sales</td>
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<tr>
<td>Cost of service revenues</td>
<td>770</td>
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<tr>
<td>Corporate home office and other general and administrative costs</td>
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<tr>
<td>Goodwill impairment</td>
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<td>Operating income (loss)</td>
<td>248</td>
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<tr>
<td>Other (expense) income</td>
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<tr>
<td>Interest expense</td>
<td>(40)</td>
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<tr>
<td>Other, net</td>
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<td>Earnings (loss) before income taxes</td>
<td>206</td>
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<tr>
<td>Federal income taxes</td>
<td>71</td>
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<tr>
<td>Net earnings (loss)</td>
<td>$135</td>
</tr>
<tr>
<td>Net earnings (loss) from above</td>
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<tr>
<td>Other comprehensive income (loss)</td>
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</tr>
<tr>
<td>Change in unamortized benefit plan costs</td>
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</tr>
<tr>
<td>Tax (expense) benefit on change in unamortized benefit plan costs</td>
<td>5</td>
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<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>16</td>
</tr>
<tr>
<td>Comprehensive income (loss)</td>
<td>$151</td>
</tr>
</tbody>
</table>

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

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## NORTHROP GRUMMAN SHIPBUILDING
### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Unaudited Pro Forma</th>
<th>December 31</th>
<th>December 31</th>
<th>December 31</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2010</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
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</tr>
<tr>
<td>Accounts receivable, net</td>
<td>$ 728</td>
<td>$ 728</td>
<td>$ 537</td>
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<tr>
<td>Inventoried costs, net</td>
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<td>293</td>
<td>298</td>
<td></td>
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<tr>
<td>Deferred income taxes</td>
<td>284</td>
<td>284</td>
<td>326</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>8</td>
<td>8</td>
<td>10</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td>1,313</td>
<td>1,313</td>
<td>1,171</td>
<td></td>
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<tr>
<td><strong>Property, Plant, and Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and land improvements</td>
<td>303</td>
<td>303</td>
<td>287</td>
<td></td>
</tr>
<tr>
<td>Buildings and leasehold improvements</td>
<td>1,357</td>
<td>1,357</td>
<td>1,296</td>
<td></td>
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<tr>
<td>Machinery and other equipment</td>
<td>1,162</td>
<td>1,162</td>
<td>1,104</td>
<td></td>
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<tr>
<td>Capitalized software costs</td>
<td>185</td>
<td>185</td>
<td>160</td>
<td></td>
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<tr>
<td><strong>Accumulated depreciation and amortization</strong></td>
<td>(1,010)</td>
<td>(1,010)</td>
<td>(870)</td>
<td></td>
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<tr>
<td><strong>Property, plant, and equipment, net</strong></td>
<td>1,997</td>
<td>1,997</td>
<td>1,977</td>
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<tr>
<td><strong>Other Assets</strong></td>
<td></td>
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<tr>
<td>Goodwill</td>
<td>1,134</td>
<td>1,134</td>
<td>1,134</td>
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<tr>
<td>Other purchased intangibles, net of accumulated amortization of $352 in 2010 and $329 in 2009</td>
<td>587</td>
<td>587</td>
<td>610</td>
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<tr>
<td>Pension plan asset</td>
<td>131</td>
<td>131</td>
<td>116</td>
<td></td>
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<tr>
<td>Miscellaneous other assets</td>
<td>41</td>
<td>41</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td>1,893</td>
<td>1,893</td>
<td>1,888</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 5,203</td>
<td>$ 5,203</td>
<td>$ 5,036</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities and Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable to parent</td>
<td>$ 715</td>
<td>$ 715</td>
<td>$ 537</td>
<td></td>
</tr>
<tr>
<td>Trade accounts payable</td>
<td>274</td>
<td>274</td>
<td>314</td>
<td></td>
</tr>
<tr>
<td>Current portion of workers’ compensation liabilities</td>
<td>197</td>
<td>197</td>
<td>255</td>
<td></td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td>239</td>
<td>239</td>
<td>212</td>
<td></td>
</tr>
<tr>
<td>Current portion of post-retirement plan liabilities</td>
<td>146</td>
<td>146</td>
<td>175</td>
<td></td>
</tr>
<tr>
<td>Accrued employees’ compensation</td>
<td>203</td>
<td>203</td>
<td>173</td>
<td></td>
</tr>
<tr>
<td>Advance payments and billings in excess of costs incurred</td>
<td>107</td>
<td>107</td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>Provision for contract losses</td>
<td>80</td>
<td>80</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>265</td>
<td>265</td>
<td>154</td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>1,272</td>
<td>1,226</td>
<td>1,954</td>
<td></td>
</tr>
<tr>
<td><strong>Long-term debt</strong></td>
<td>105</td>
<td>105</td>
<td>283</td>
<td></td>
</tr>
<tr>
<td>Contribution payable to parent</td>
<td>1,429</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other post-retirement plan liabilities</td>
<td>567</td>
<td>567</td>
<td>502</td>
<td></td>
</tr>
<tr>
<td>Pension plan liabilities</td>
<td>381</td>
<td>381</td>
<td>379</td>
<td></td>
</tr>
<tr>
<td>Workers’ compensation liabilities</td>
<td>351</td>
<td>351</td>
<td>265</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>99</td>
<td>99</td>
<td>156</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>4,260</td>
<td>3,785</td>
<td>3,599</td>
<td></td>
</tr>
<tr>
<td><strong>Commitments and Contingencies (Note 14)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Stock, $.01 par value</td>
<td>1,458</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td>1,933</td>
<td>1,968</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(515)</td>
<td>(515)</td>
<td>(531)</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>943</td>
<td>1,418</td>
<td>1,437</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>$ 5,203</td>
<td>$ 5,203</td>
<td>$ 5,036</td>
<td></td>
</tr>
</tbody>
</table>

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

F-4
## NORTHRUP GRUMMAN SHIPBUILDING
### CONSOLIDATED STATEMENTS OF CASH FLOWS

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Earnings (Loss)</td>
<td>$135</td>
<td>$124</td>
<td>$(2,420)</td>
</tr>
<tr>
<td>Adjustments to reconcile to net cash provided by (used in) operating activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>160</td>
<td>156</td>
<td>137</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>23</td>
<td>30</td>
<td>56</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td></td>
<td></td>
<td>2,490</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(19)</td>
<td>(98)</td>
<td>10</td>
</tr>
<tr>
<td>Decrease (increase) in Accounts receivable</td>
<td>(190)</td>
<td>(56)</td>
<td>(103)</td>
</tr>
<tr>
<td>Inventoried costs</td>
<td>5</td>
<td>(101)</td>
<td>52</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>2</td>
<td>(1)</td>
<td>2</td>
</tr>
<tr>
<td>Increase (decrease) in Accounts payable and accruals</td>
<td>205</td>
<td>(111)</td>
<td>145</td>
</tr>
<tr>
<td>Retiree benefits</td>
<td>33</td>
<td>(28)</td>
<td>(28)</td>
</tr>
<tr>
<td>Other non-cash transactions, net</td>
<td>5</td>
<td>(3)</td>
<td>(2)</td>
</tr>
<tr>
<td>Net cash provided by (used in) operations</td>
<td>359</td>
<td>(88)</td>
<td>339</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant, and equipment</td>
<td>(191)</td>
<td>(181)</td>
<td>(218)</td>
</tr>
<tr>
<td>Decrease in restricted cash</td>
<td></td>
<td></td>
<td>61</td>
</tr>
<tr>
<td>Other investing activities, net</td>
<td>2</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(189)</td>
<td>(178)</td>
<td>(152)</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(178)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of note payable to parent</td>
<td>178</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net transfers from (to) parent</td>
<td>(170)</td>
<td>266</td>
<td>(187)</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(170)</td>
<td>266</td>
<td>(187)</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Supplemental Cash Flow Disclosure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for interest</td>
<td>$16</td>
<td>$16</td>
<td>$16</td>
</tr>
<tr>
<td><strong>Non-Cash Investing and Financing Activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditures accrued in accounts payable</td>
<td>$44</td>
<td>$47</td>
<td>$42</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
# NORTHRUP GRUMMAN SHIPBUILDING
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2010</td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td><strong>Parent's Equity in Unit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>$1,968</td>
<td>$1,578</td>
<td>$4,185</td>
<td></td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>135</td>
<td>124</td>
<td>(2,420)</td>
<td></td>
</tr>
<tr>
<td>Net transfers from (to) parent</td>
<td>(170)</td>
<td>266</td>
<td>(187)</td>
<td></td>
</tr>
<tr>
<td>At end of year</td>
<td>1,933</td>
<td>1,968</td>
<td>1,578</td>
<td></td>
</tr>
<tr>
<td><strong>Accumulated Other Comprehensive Loss</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>(531)</td>
<td>(617)</td>
<td>(204)</td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>16</td>
<td>86</td>
<td>(413)</td>
<td></td>
</tr>
<tr>
<td>At end of year</td>
<td>(515)</td>
<td>(531)</td>
<td>(617)</td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>$1,418</td>
<td>$1,437</td>
<td>$961</td>
<td></td>
</tr>
</tbody>
</table>

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

F-6
1. DESCRIPTION OF BUSINESS

Northrop Grumman Shipbuilding and its subsidiaries (NGSB or the company) is a wholly owned subsidiary of Northrop Grumman Corporation (Northrop Grumman). The company currently operates three major shipyards located in Newport News, Virginia, Pascagoula, Mississippi and Avondale, Louisiana but plans to wind down its shipbuilding operations at the Avondale, Louisiana facility in 2013 (see Note 4).

The company’s business is organized into two operating segments, Gulf Coast and Newport News. Through its Gulf Coast shipyards, the company currently is the sole supplier and builder of amphibious assault and expeditionary ships to the U.S. Navy, currently the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies that currently builds the U.S. Navy’s current fleet of DDG-51 Arleigh Burke-class destroyers, and one of the nations’ leading service providers of life cycle support of major surface ship programs for the U.S. Navy and U.S. Coast Guard. Through its Newport News shipyard, the company is the nation’s sole industrial designer, builder, and refueler of nuclear-powered aircraft carriers, and one of only two companies currently capable of designing and building nuclear-powered submarines for the U.S. Navy. As prime contractor, principal subcontractor, or partner, NGSB participates in many high-priority defense technology programs in the U.S. The company conducts most of its business with the U.S. Government, principally the Department of Defense (DoD).

Strategic Actions—Northrop Grumman announced in July 2010 that it will evaluate whether a separation of NGSB would be in the best interests of Northrop Grumman shareholders, customers, and employees. Strategic alternatives for NGSB include, but are not limited to, a spin-off to Northrop Grumman shareholders. Northrop Grumman believes that separating NGSB from Northrop Grumman will benefit both Northrop Grumman and the shipbuilding business by better aligning management’s attention and investment resources to pursue opportunities in their respective markets and more actively manage their cost structures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements of NGSB have been derived from the consolidated financial statements and accounting records of Northrop Grumman and were prepared in conformity with accounting principles generally accepted in the United States (GAAP).

The consolidated statements of operations include expense allocations for certain corporate functions historically provided to NGSB by Northrop Grumman, including, but not limited to, human resources, employee benefits administration, treasury, risk management, audit, finance, tax, legal, information technology support, procurement, and other shared services. These allocations are reflected in the consolidated statements of operations within the expense categories to which they relate. The allocations were made on a direct usage basis when identifiable, with the remainder allocated on various bases that are further discussed in Note 19. Management of NGSB and Northrop Grumman consider these allocations to be a reasonable reflection of the utilization of services by, or benefits provided to, NGSB. Management believes that the allocations are substantially consistent with NGSB’s estimates of the costs it would incur as a stand-alone company. However, these estimates are based on management’s judgment regarding its future stand-alone company costs and not the actual costs incurred.

Transactions between NGSB and Northrop Grumman are reflected as effectively settled for cash at the time of the transaction and are included in financing activities in the consolidated statements of cash flows. The net effect of these transactions is reflected in the parent’s equity in unit in the consolidated statements of financial position.

The consolidated financial statements also include certain Northrop Grumman assets and liabilities that are specifically identifiable or otherwise allocable to the company. The NGSB consolidated financial statements may not be indicative of NGSB’s future performance and do not necessarily reflect what the results of operations, financial position and cash flows would have been had NGSB operated as a stand-alone company during the periods presented.
Unaudited Pro Forma Statement of Financial Position—The unaudited pro forma statement of financial position presents NGSB’s pro forma capitalization at December 31, 2010. The statement reflects the impacts of the transactions to be completed in conjunction with the spin-off of Huntington Ingalls Industries, Inc. (“HII”), which will become the parent of NGSB, including: (i) the distribution of HII common stock by Northrop Grumman to its shareholders; and (ii) the accrual of the contribution of $1,429 million by HII to Northrop Grumman Systems Corporation, a subsidiary of Northrop Grumman (the “Contribution”). The Contribution is presented as a long-term obligation because it will be paid using the proceeds from the incurrence of $1,775 million of debt prior to the completion of the spin-off by HII (the “HII Debt”). HII will record the net proceeds of the HII Debt after funding the Contribution as cash and cash equivalents on its Consolidated Statement of Financial Position.

The distribution of HII common stock to Northrop Grumman’s stockholders includes adjustments for the recapitalization transactions. In connection with this recapitalization, the amount of Northrop Grumman’s net investment in HII, including intercompany debt and accrued interest thereon which was recorded as notes payable to parent in the consolidated statement of financial position, net of the contribution, will be contributed to additional paid-in capital. Northrop Grumman stockholders will receive one share of HII common stock for every six shares of Northrop Grumman stock owned. The unaudited pro forma statement of financial position reflects a distribution of 48,492,792 shares of HII common stock based on the 290,956,752 shares of Northrop Grumman stock outstanding as of December 31, 2010.

The unaudited pro forma statement of financial position was prepared as if the transactions and events described above had occurred on December 31, 2010.

Parent’s Equity in Unit—Parent’s Equity in Unit in the consolidated statements of financial position represents Northrop Grumman’s historical investment in NGSB, the net effect of cost allocations from and transactions with Northrop Grumman, net cash activity, and NGSB’s accumulated earnings. See Basis of Presentation in Note 2 and Note 19.

Financial Statement Reclassification—Certain amounts in the prior year financial statements and related notes have been reclassified to conform to the current presentation as described in Note 10. In addition, the company reclassified $22 million of accrued liabilities from non-current to current liabilities in the 2009 consolidated statements of financial position to conform to the current presentation.

Principles of Consolidation — The consolidated financial statements presented herein represent the stand-alone results of operations, financial position and cash flows of NGSB and its subsidiaries. All intercompany transactions and accounts of NGSB have been eliminated.

Accounting Estimates — The preparation of the financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information; actual results could differ materially from those estimates.

Revenue Recognition—As a defense contractor engaging in long-term contracts (both as prime contractor and subcontractor), the majority of the company’s business is derived from long-term contracts for the construction of naval vessels, production of goods, and services provided to the federal government, principally the U.S. Navy. In accounting for these contracts, the company extensively utilizes the cost-to-cost measures of the percentage-of-completion method of accounting, principally based upon direct labor dollars or total costs incurred. Under this method, sales, including estimated earned fees or profits, are recorded as costs are incurred. Contract sales are calculated either based on the percentage that direct labor costs incurred bear to total estimated direct labor costs or based on the percentage that total costs incurred bear to total estimated costs at completion. Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined and estimated. Amounts representing contract change orders, claims, requests for equitable adjustment, or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. The company estimates profit as the difference between total
estimated revenue and total estimated cost of a contract and recognizes that profit over the life of the contract based on progress towards completion. The company classifies contract revenues as product sales or service revenues depending upon the predominant attributes of the relevant underlying contracts. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in un billed accounts receivable or inventoried costs, with any remaining amount reflected in other current liabilities. Changes in estimates of contract sales, costs, and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimate had been the original estimate. A significant change in an estimate on one or more contracts could have a material effect on the company’s consolidated financial position or results of operations, and where such changes occur, separate disclosure is made of the nature, underlying conditions, and the amount of the financial impact from the change in estimate (see Notes 4 and 6).

Corporate Home Office and Other General and Administrative Costs—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 also include certain Northrop Grumman corporate and other costs, primarily consisting of the net pension and post-retirement benefits adjustment, the provision for deferred state income taxes and certain other expenses that are generally not currently allowable under the Federal Acquisition Regulations (FAR). The net pension and post-retirement benefits adjustment reflects the difference between pension and post-retirement benefits expenses determined in accordance with GAAP and pension and post-retirement benefit expenses allocated to individual contracts determined in accordance with Cost Accounting Standards (CAS). For purposes of these stand-alone financial statements, these Northrop Grumman amounts together with allowable general and administrative expenses have been allocated to NGSB. Allowable general and administrative expense is comprised of NGSB home office costs, independent research and development costs, bid and proposal costs, the allowable portion of corporate home office costs, and the current state income tax provision.

Research and Development—Company-sponsored research and development activities primarily include independent research and development (IR&D) efforts related to government programs. IR&D expenses are included in general and administrative expenses and are generally allocated to government contracts. Company-sponsored IR&D expenses totaled $23 million, $21 million and $21 million for the years ended December 31, 2010, 2009 and 2008, respectively. Expenses for research and development sponsored by the customer are charged directly to the related contracts.

Product Warranty Costs—The company provides certain product warranties that require repair or replacement of non-conforming items for a specified period of time often subject to a specified monetary coverage limit. The company’s product warranties are provided under government contracts, the costs of which are immaterial and are accounted for using the percentage-of-completion method of accounting.

Environmental Costs—Environmental liabilities are accrued when the company determines it is responsible for remediation costs and such amounts are reasonably estimable. When only a range of amounts is established and no amount within the range is more probable than another, the minimum amount in the range is recorded. Environmental liabilities are recorded on an undiscounted basis. Environmental expenditures are expensed or capitalized as appropriate. Capitalized expenditures, if any, relate to long-lived improvements in currently operating facilities. The company does not record insurance recoveries before collection is probable. At December 31, 2010, and 2009, the company did not have any accrued receivables related to insurance reimbursements or recoveries for environmental matters.

Fair Value of Financial Instruments—The valuation techniques utilized to determine the fair value of financial instruments are based upon observable and unobservable inputs. Observable inputs reflect market data obtained.
from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 — Quoted prices for identical instruments in active markets.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 — Significant inputs to the valuation model are unobservable.

Except for long-term debt, the carrying amounts of the company’s other financial instruments are measured at fair value or approximate fair value due to the short-term nature of these other items.

Asset Retirement Obligations — The company records all known asset retirement obligations for which the liability’s fair value can be reasonably estimated, including certain asbestos removal, asset decommissioning and contractual lease restoration obligations. Recorded amounts as of December 31, 2010 are $20 million and consist primarily of obligations associated with the wind down of the company’s shipbuilding operations at the Avondale facility (see Note 4). Amounts as of December 31, 2009 were not material.

The company also has known conditional asset retirement obligations related to assets currently in use, such as certain asbestos remediation and asset decommissioning activities to be performed in the future, that are not reasonably estimable as of December 31, 2010 and 2009 due to insufficient information about the timing and method of settlement of the obligation. Accordingly, the fair value of these obligations has not been recorded in the consolidated financial statements. Environmental remediation and/or asset decommissioning of these facilities may be required when the company ceases to utilize these facilities but no such plans are currently contemplated as of December 31, 2010. In addition, there may be conditional environmental asset retirement obligations that the company has not yet discovered (e.g. asbestos may exist in certain buildings which the company has not become aware of through its normal business operations), and therefore, these obligations also have not been included in the consolidated financial statements.

Income Taxes — The results of the company’s operations are included in the federal income and state income and franchise tax returns of Northrop Grumman. Income tax expense and other income tax-related information contained in these financial statements are presented as if the company filed its own tax returns on a stand-alone basis and are based on the prevailing statutory rates for U.S. federal income taxes and the composite state income tax rate for the company for each period presented. State and local income and franchise tax provisions are allocable to contracts in process and, accordingly, are included in cost of product sales, cost of service revenues and corporate home office and other general and administrative expenses.

The company makes a comprehensive review of its portfolio of uncertain tax positions regularly. In this regard, an uncertain tax position represents the company’s expected treatment of a tax position taken in Northrop Grumman’s consolidated tax return, or planned to be taken in a future tax return or claim that has not been reflected in measuring income tax expense for financial reporting purposes. Until these positions are sustained or otherwise resolved by the taxing authorities, the company does not recognize the tax benefits resulting from such positions, if any, and reports the tax effects as a liability for uncertain tax positions in its consolidated statements of financial position.

Determinations of the expected realizability of deferred tax assets and the need for any valuation allowances against these deferred tax assets were evaluated based upon the stand-alone tax attributes of the company, and no valuation allowances were deemed necessary as of December 31, 2010, and 2009.

Current federal income tax liabilities are assumed to be immediately settled by Northrop Grumman and are relieved through the parent’s equity in unit account. Federal income taxes have been recorded within income tax.
expense. The company recognizes interest accrued related to unrecognized tax benefits in income tax expense. Penalties, if probable and reasonably estimable, are also recognized as a component of income tax expense.

**Cash and Cash Equivalents**—Northrop Grumman utilizes a centralized cash management system. Cash and cash equivalents balances are held at the Northrop Grumman level and have not been allocated to NGSB. Historically, cash received by the company has been transferred to Northrop Grumman, and Northrop Grumman has funded the company’s disbursement accounts on an as-needed basis. The net effect of transfers of cash to and from the Northrop Grumman cash management accounts is reflected in the parent’s equity in unit account in the consolidated statements of financial position.

**Accounts Receivable**—Accounts receivable include amounts billed and currently due from customers, amounts currently due but unbilled, certain estimated contract change amounts, claims or requests for equitable adjustment in negotiation that are probable of recovery, and amounts retained by the customer pending contract completion.

**Inventoried Costs**—Inventoried costs primarily relate to work in process under contracts that recognize revenue using labor dollars as the basis of the percentage-of-completion calculation. These costs represent accumulated contract costs less cost of sales, as calculated using the percentage-of-completion method. Accumulated contract costs include direct production costs, factory and engineering overhead, production tooling costs, and, for government contracts, allowable general and administrative expenses. According to the provisions of U.S. Government contracts, the customer asserts title to, or a security interest in, inventories related to such contracts as a result of contract advances, performance-based payments, and progress payments. In accordance with industry practice, inventoried costs are classified as a current asset and include amounts related to contracts having production cycles longer than one year. Inventoried costs also include company owned raw materials, which are stated at the lower of cost or market, generally using the average cost method.

**Depreciable Properties**—Property, plant, and equipment owned by the company are recorded at cost and depreciated over the estimated useful lives of individual assets. Costs incurred for computer software developed or obtained for internal use are capitalized and amortized over the expected useful life of the software, not to exceed nine years. Leasehold improvements are amortized over the shorter of their useful lives or the term of the lease.

The remaining assets are depreciated using the straight-line method, with the following lives:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land improvements</td>
<td>12 – 45</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>15 – 50</td>
</tr>
<tr>
<td>Capitalized software costs</td>
<td>3 – 9</td>
</tr>
<tr>
<td>Machinery and other equipment</td>
<td>3 – 45</td>
</tr>
</tbody>
</table>

The company evaluates the recoverability of its property, plant and equipment when there are changes in economic circumstances or business objectives that indicate the carrying value may not be recoverable. The company’s evaluations include estimated future cash flows, profitability and other factors in determining fair value. As these assumptions and estimates may change over time, it may or may not be necessary to record impairment charges.

**Leases**—The company has historically used Northrop Grumman’s incremental borrowing rate in the assessment of lease classification as capital or operating and defines the initial lease term to include renewal options determined to be reasonably assured. The company conducts operations primarily under operating leases.

Many of the company’s real property lease agreements contain incentives for tenant improvements, rent holidays, or rent escalation clauses. For incentives for tenant improvements, the company records a deferred rent liability and amortizes the deferred rent over the term of the lease as a reduction to rent expense. For rent holidays and rent escalation clauses during the lease term, the company records minimum rental expenses on a straight-line
basis over the term of the lease. For purposes of recognizing lease incentives, the company uses the date of initial possession as the commencement date, which is generally, when the company is given the right of access to the space and begins to make improvements in preparation for intended use.

Goodwill and Other Purchased Intangible Assets—The company performs impairment tests for goodwill as of November 30th of each year, or when evidence of potential impairment exists. When it is determined that impairment has occurred, a charge to operations is recorded. Purchased intangible assets are amortized on a straight-line basis over their estimated useful lives and the carrying value of these assets is reviewed for impairment when events indicate that a potential impairment may have occurred (see Notes 4 and 9).

Self-Insured Group Medical Insurance—The company participates in a Northrop Grumman-sponsored self-insured group medical insurance plan and these financial statements include an allocation of the expenses and accruals attributable to NGSB employees participating in the plan. The plan is designed to provide a specified level of coverage for employees and their dependents. Northrop Grumman estimates expenses and the required liability of such claims utilizing actuarial methods based on various assumptions, which include, but are not limited to, the company’s historical loss experience and projected loss development factors. Related self-insurance accruals include amounts related to the liability for reported claims and an estimated accrual for claims incurred but not reported.

Self-Insured Workers’ Compensation Plan—The operations of the company are subject to the federal and state workers’ compensation laws. The company maintains self-insured workers’ compensation plans, in addition to participating in state administered second injury workers’ compensation funds. The company estimates the required liability of such claims and state funding requirements on a discounted basis utilizing actuarial methods based on various assumptions, which include, but are not limited to, the company’s historical loss experience and projected loss development factors as compiled in an annual actuarial study. Related self-insurance accruals include amounts related to the liability for reported claims and an estimated accrual for claims incurred but not reported. The company’s workers’ compensation liability is discounted at 3.31% and 3.47% at December 31, 2010, and 2009, respectively, which discount rates were determined using a risk-free rate based on future payment streams. Workers’ compensation benefit obligations on an undiscounted basis were $726 million and $686 million as of December 31, 2010 and 2009, respectively.

Litigation, Commitments, and Contingencies—Amounts associated with litigation, commitments, and contingencies are recorded as charges to earnings when management, after taking into consideration the facts and circumstances of each matter, including any settlement offers, has determined that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Retirement Benefits—A substantial portion of the company’s employees are covered by Northrop Grumman-sponsored defined benefit pension plans under which they are eligible for benefits generally at age 65 or on a reduced basis for qualifying early retirement. Certain employees are also covered by Northrop Grumman-sponsored post-retirement health care plans. For the Northrop Grumman sponsored pension and post-retirement plans where company employees participate along with other Northrop Grumman employees, the consolidated financial statements reflect the respective plans’ total funded status and related changes in funded status. For the Northrop Grumman sponsored pension and post-retirement plans where company employees participate along with other Northrop Grumman employees, the consolidated financial statements reflect an allocated portion of the respective plans’ funded status and related changes in funded status based upon the company employee participation level. The assets recognized as of December 31, 2010 and 2009 for such plans where allocations were required were calculated based on the present values of the accrued benefit determined under Employee Retirement Income Security Act (ERISA) and Internal Revenue Service (IRS) regulations. The CAS costs have been separately calculated for NGSB in accordance with the relevant standards. For funded plans, Northrop Grumman’s funding policy is to contribute, at a minimum, the statutorily required amount to an irrevocable trust. For unfunded plans, Northrop Grumman makes contributions equal to the amount of benefit payments made to plan participants. Northrop Grumman also sponsors 401(k) defined contribution plans in which most of the company’s employees are eligible to participate. Northrop Grumman contributions for most plans
are based on a cash matching of company employee contributions up to 4 percent of compensation. In addition to the Northrop Grumman-sponsored 401(k) defined contribution plan, company employees hired after June 30, 2008 are eligible to participate in a Northrop Grumman-sponsored defined contribution pension plan in lieu of a defined benefit pension plan.

Stock Compensation—Certain key employees of the company participate in stock-based compensation plans of Northrop Grumman. All of Northrop Grumman’s stock-based compensation plans are considered equity plans and compensation expense recognized is net of estimated forfeitures over the vesting period. Northrop Grumman issues stock options and stock awards, in the form of restricted performance stock rights and restricted stock rights, under its existing plans. The fair value of stock option grants is estimated on the date of grant using a Black-Scholes option-pricing model and expensed on a straight-line basis over the vesting period of the options, which is generally three to four years. The fair value of stock awards is determined based on the closing market price of Northrop Grumman’s common stock on the grant date and at each reporting date, the amount of shares is adjusted to equal the amount ultimately expected to vest. Compensation expense for stock awards is allocated to NGSB by Northrop Grumman and expensed over the vesting period, usually three to five years.

Accumulated Other Comprehensive Loss—The accumulated other comprehensive loss as of December 31, 2010 and 2009, was comprised of unamortized benefit plan costs of $515 million (net of tax benefit of $343 million) and $531 million (net of tax benefit of $338 million), respectively.

3. ACCOUNTING STANDARDS UPDATES

Accounting Standards Updates not effective until after December 31, 2010 are not expected to have a significant effect on the company’s consolidated financial position, results of operations or cash flows.

4. CONSOLIDATION OF GULF COAST OPERATIONS

In July 2010, Northrop Grumman announced plans to consolidate NGSB’s Gulf Coast operations by winding down its shipbuilding operations at the Avondale, Louisiana facility in 2013 after completing LPD-class ships currently under construction there. Future LPD-class ships will be built in a single production line at the company’s Pascagoula, Mississippi facility. The consolidation is intended to reduce costs, increase efficiency, and address shipbuilding overcapacity. Due to the consolidation, NGSB expects higher costs to complete ships currently under construction in Avondale due to anticipated reductions in productivity and increased the estimates to complete LPDs 23 and 25 by approximately $210 million. The company recognized a $113 million charge to operating income for the cumulative effect of these incremental costs on the LPD 23 and 25 contracts in the second quarter of 2010.

In connection with and as a result of the decision to wind down its shipbuilding operations at the Avondale, Louisiana facility, the company determined it would not meet certain requirements under its co-operative agreement with the State of Louisiana. Accordingly, the company recorded liabilities of $51 million in June 2010 to recognize this obligation as well as certain asset retirement obligations, which were necessitated as a result of the Avondale facility decision. In addition to the cost of the assets to be acquired from the State of Louisiana upon payment of the obligation to the state, the company anticipates that it will incur substantial other restructuring and facilities shut-down related costs, including but not limited to, severance, relocation expense, and asset write-downs related to the Avondale facilities. These costs are expected to be allowable expenses under government accounting standards and thus will be recoverable in future years’ overhead costs. These future costs could approximate $310 million and such costs should be allocable to existing flexibly priced contracts or future negotiated contracts at the Gulf Coast operations in accordance with FAR provisions relating to the treatment of restructuring and shutdown related costs.

In its initial audit report on the company’s cost proposal for the restructuring and shutdown related costs, the Defense Contract Audit Agency (DCAA) stated that, in general, the proposal was not adequately supported in order
for it to reach a conclusion. The DCAA also questioned about $25 million (approximately 8%) of the costs submitted. The DCAA stated that it could not reach a final conclusion on the cost submission due to the potential spin transaction relating to the Shipbuilding business. Accordingly, the DCAA did not accept the cost proposal as submitted, and the company intends to resubmit its proposal to address the concerns expressed by the DCAA. Ultimately, the company anticipates that this process will result in an agreement with the U.S. Navy that is substantially in accord with management’s cost allowability expectations. Accordingly, the company has treated these costs as allowable costs in determining the cost and earnings performance on its contracts in process. If there is a formal challenge to the company’s treatment of its restructuring costs, there are prescribed dispute resolution alternatives to resolve such a challenge and the company would likely pursue a dispute resolution process.

As a result of the announcement to wind down its shipbuilding operations at the Avondale, Louisiana facility and the Gulf Coast segment’s 2010 operating losses, the company performed an impairment test for the Gulf Coast segment’s other long-lived assets and each reportable segment’s goodwill as of June 30, 2010. The company’s testing approach for goodwill impairment utilizes a discounted cash flow analysis corroborated by comparative market multiples to determine the fair value of its businesses for comparison to their corresponding book values. NGSB determined that no impairment existed as of June 30, 2010. See Note 9 for the results of the annual impairment test.

Northrop Grumman’s decision to wind down its shipbuilding operations at the Avondale, Louisiana facility also led to a curtailment adjustment reducing the pension benefit obligation on the benefit plans in which NGSB employees participate by $14 million. The effect of this curtailment on the company’s consolidated results of operations or cash flows was not material.

NGSB is currently exploring alternative uses of the Avondale facility by potential new owners, including alternative opportunities for the workforce.

5. SEGMENT INFORMATION

At December 31, 2010, the company was aligned into two reportable segments: Gulf Coast and Newport News.

U.S. Government Sales—Revenue from the U.S. Government includes revenue from contracts for which NGSB is the prime contractor as well as those for which the company is a subcontractor and the ultimate customer is the U.S. Government. The company derives substantially all of its revenue from the U.S. Government.

Assets—Substantially all of the company’s assets are located or maintained in the U.S.
Results of Operations By Segment

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and Service Revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td></td>
<td>$3,027</td>
<td>$2,865</td>
<td>$2,848</td>
</tr>
<tr>
<td>Newport News</td>
<td>3,775</td>
<td>3,534</td>
<td>3,427</td>
<td></td>
</tr>
<tr>
<td>Intersegment eliminations</td>
<td>(79)</td>
<td>(107)</td>
<td>(86)</td>
<td></td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>6,723</td>
<td>6,292</td>
<td>6,189</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>(61)</td>
<td>(29)</td>
<td>(1,433)</td>
<td></td>
</tr>
<tr>
<td>Newport News</td>
<td>355</td>
<td>313</td>
<td>(895)</td>
<td></td>
</tr>
<tr>
<td>Total Segment Operating Income (Loss)</td>
<td>294</td>
<td>284</td>
<td>(2,328)</td>
<td></td>
</tr>
<tr>
<td>Non-segment factors affecting operating income (loss)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(49)</td>
<td>(88)</td>
<td>(25)</td>
<td></td>
</tr>
<tr>
<td>Deferred State Income Taxes</td>
<td>3</td>
<td>15</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Total operating income (loss)</td>
<td>$248</td>
<td>$211</td>
<td>$(2,354)</td>
<td></td>
</tr>
</tbody>
</table>

Sales transactions between segments are generally recorded at cost.

*Goodwill Impairment Charge*—The operating losses for the year ended December 31, 2008, reflect goodwill impairment charges for Gulf Coast and Newport News of $1.3 billion and $1.2 billion, respectively.

*Net Pension and Post-Retirement Benefits Adjustment*—The net pension and post-retirement benefits adjustment reflects the difference between expenses for pension and other post-retirement benefits determined in accordance with GAAP and the expenses for these items included in segment operating income in accordance with CAS.

Other Financial Information

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$2,044</td>
<td>$1,922</td>
<td>$1,817</td>
<td></td>
</tr>
<tr>
<td>Newport News</td>
<td>2,744</td>
<td>2,672</td>
<td>2,616</td>
<td></td>
</tr>
<tr>
<td>Corporate</td>
<td>415</td>
<td>442</td>
<td>327</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$5,203</td>
<td>$5,036</td>
<td>$4,760</td>
<td></td>
</tr>
</tbody>
</table>

The Corporate assets included in the table above consist only of pension and other-post retirement plan assets and deferred tax assets.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year Ended December 31</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$52</td>
<td>$102</td>
<td>$153</td>
<td></td>
</tr>
<tr>
<td>Newport News</td>
<td>139</td>
<td>79</td>
<td>65</td>
<td></td>
</tr>
<tr>
<td>Total capital expenditures</td>
<td>$191</td>
<td>$181</td>
<td>$218</td>
<td></td>
</tr>
</tbody>
</table>

F-15
6. CONTRACT CHARGES

Earnings Charge Relating to LHD 8 Contract Performance—LHD 8 is an amphibious assault ship that was delivered in the second quarter of 2009. LHD 8 features significant enhancements compared with earlier ships of the class, including a gas turbine engine propulsion system, a new electrical generation and distribution system, and a centralized machinery control system administered over a fiber optic network. LHD 8 was constructed under a fixed-price incentive contract. Lack of progress in LHD 8 on-board testing preparatory to sea trials prompted the company to undertake a comprehensive review of the program, including a detailed physical audit of the ship, resulting in a pre-tax charge of $272 million in the first quarter of 2008 for anticipated cost growth related to the identified need for substantial re-work on the ship. In addition to the LHD 8 charge, an additional $54 million of charges were recognized in the first quarter of 2008, primarily for schedule impacts on other ships and impairment of purchased intangibles at the Gulf Coast shipyards. Subsequent to recognizing the LHD 8 charge, the company delivered the ship at costs that were lower than the amounts previously anticipated primarily due to efficiencies from improved operating practices, mitigation of performance risk and increased recovery of cost escalation adjustments. As a result, $63 million of the loss provision was reversed in 2008, and an additional $54 million was reversed in 2009 upon delivery of the ship. In 2010, NGSB determined that costs to complete post-delivery work on LHD 8 exceeded original estimates resulting in a charge of $30 million.

Earnings Charge Relating to LPD 22-25 Contract Performance—The LPD 22-25 contract is a four-ship fixed-price incentive contract for the construction of amphibious landing platform ships that are a follow-on of the LPD 17 Class program with five ships previously built and delivered. The program’s construction has been adversely impacted by operating performance factors, resulting in unfavorable cost growth that led to pre-tax charges totaling $171 million in 2009. In 2010, the company recorded net performance adjustments of $132 million primarily for additional cost growth on the LPD 22-25 contract, including the effect of a $113 million charge for the cumulative effect of the $210 million of incremental costs expected due to the company’s decision to wind down its shipbuilding operations at the Avondale facility in 2013. Note 4 provides additional information related to the consolidation of Gulf Coast operations.

7. ACCOUNTS RECEIVABLE, NET

Unbilled amounts represent sales for which billings have not been presented to customers at year-end. These amounts are usually billed and collected within one year. Accounts receivable at December 31, 2010, are expected to be collected in 2011, except for approximately $72 million due in 2012 and $6 million due in 2013 and later.

Because the company’s accounts receivable are primarily with the U.S. Government, the company does not have material exposure to credit risk.
Accounts receivable were composed of the following:

<table>
<thead>
<tr>
<th></th>
<th>$ in millions</th>
<th>December 31</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due From U.S. Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts billed</td>
<td>$194</td>
<td>$240</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recoverable costs and accrued profit on progress completed—unbilled</td>
<td>$524</td>
<td>$288</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$718</td>
<td>$528</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due From Other Customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts billed</td>
<td>9</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recoverable costs and accrued profit on progress completed—unbilled</td>
<td>4</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total accounts receivable</td>
<td>731</td>
<td>540</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowances for doubtful accounts</td>
<td>(3)</td>
<td>(3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total accounts receivable, net</td>
<td>$728</td>
<td>$537</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8. INVENTORIED COSTS, NET

Inventoried costs were composed of the following:

<table>
<thead>
<tr>
<th></th>
<th>$ in millions</th>
<th>December 31</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production costs of contracts in process</td>
<td>$681</td>
<td>$1,009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>7</td>
<td>14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Progress payments received</td>
<td>(481)</td>
<td>(811)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total inventoried costs, net</td>
<td>207</td>
<td>212</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>Total inventoried costs, net</td>
<td>$293</td>
<td>$298</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

9. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

NGSB performs its annual impairment test for goodwill as of November 30th each year, or more often as circumstances require. The company’s testing approach utilizes a discounted cash flow analysis corroborated by comparative market multiples to determine the fair value of its businesses for comparison to their corresponding book values. If the book value exceeds the estimated fair value of the business, a potential impairment is indicated and GAAP prescribes the approach for determining the impairment amount, if any. The company performed its annual impairment test as of November 30, 2010, with no indication of impairment.

In the fourth quarter of 2008, the company recorded a non-cash charge totaling $2,490 million for the impairment of goodwill. The impairment was primarily driven by adverse equity market conditions that caused a decrease in current market multiples and Northrop Grumman’s stock price as of November 30, 2008. The charge reduced goodwill recorded in connection with Northrop Grumman’s 2001 acquisition of Newport News Shipbuilding and the shipbuilding operations of Litton Industries. The company’s accumulated goodwill impairment losses at December 31, 2010, and 2009, amounted to $2,490 million. The accumulated goodwill impairment losses
at December 31, 2010 and 2009 for Gulf Coast and Newport News were $1,278 million and $1,212 million, respectively. The goodwill has no tax basis, and accordingly, there was no tax benefit to be derived from recording the impairment charge.

The carrying amount of goodwill as of December 31, 2010, was $1,134 million there were no changes to goodwill during 2009 and 2010. The carrying amounts of goodwill as of December 31, 2010 and 2009 for Gulf Coast and Newport News were $488 million and $646 million, respectively.

Prior to recording the goodwill impairment charge, NGSB tested its purchased intangible assets and other long-lived assets for impairment, and the carrying values of these assets were determined not to be impaired.

**Purchased Intangible Assets**

The table below summarizes the company’s aggregate purchased intangible assets, all of which are contract or program related intangible assets:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Gross carrying amount</td>
<td>$ 939</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>(352)</td>
</tr>
<tr>
<td>Net carrying amount</td>
<td>$ 587</td>
</tr>
</tbody>
</table>

The company’s purchased intangible assets are subject to amortization and are being amortized on a straight-line basis over an aggregate weighted-average period of 40 years. Remaining unamortized intangible assets consist principally of amounts pertaining to nuclear-powered aircraft carrier and submarine intangibles whose useful lives have been estimated based on the long life cycle of the related programs. Aggregate amortization expense for 2010, 2009, and 2008, was $23 million, $30 million, and $56 million, respectively. The 2008 amount includes $19 million of additional amortization recorded in the first quarter of 2008 associated with the events impacting LHD 8 and other Gulf Coast shipbuilding programs as described in Note 6.

Expected amortization for purchased intangibles as of December 31, 2010, is $20 million for each of the next five years.

10. **INCOME TAXES**

The company’s earnings are entirely domestic and its effective tax rate for the year ended December 31, 2010, was 34.5 percent as compared with 29.5 percent and 27.1 percent (excluding the non-cash, non-deductible goodwill impairment charge of $2.5 billion) in 2009 and 2008, respectively. In 2010, the company’s effective tax rate reflects the unfavorable impact of the elimination of certain Medicare Part D tax benefits with the passage of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, a decrease in the manufacturer’s deduction and the expiration of wage credit benefits, partially offset by the favorable impact of the settlement of the IRS’ examination of Northrop Grumman’s tax returns for the years 2004-2006. The company’s effective tax rates also reflect tax credits and manufacturing deductions for all periods presented. As described in Note 2, current federal income tax liabilities are assumed to be immediately settled by Northrop Grumman and are relieved through the parent’s equity in unit account. For current state income tax purposes, the standalone tax amounts have been computed as if they were allowable costs under the terms of the company’s existing contracts in the applicable period, and, accordingly, are included in cost of product sales, cost of service revenues and corporate home office and other general and administrative expenses.
Federal income tax expense for the years ended December 31, 2010, 2009, and 2008, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td><strong>Income Taxes on Operations</strong></td>
<td></td>
</tr>
<tr>
<td>Federal income taxes currently payable</td>
<td>89</td>
</tr>
<tr>
<td>Change in deferred federal income taxes</td>
<td>(18)</td>
</tr>
<tr>
<td>Total federal income taxes</td>
<td>71</td>
</tr>
</tbody>
</table>

Income tax expense differs from the amount computed by multiplying the statutory federal income tax rate times the earnings (loss) before income taxes due to the following:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Income tax expense (benefit) on operations at statutory rate</td>
<td>72</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>872</td>
</tr>
<tr>
<td>Manufacturing deduction</td>
<td>(1)</td>
</tr>
<tr>
<td>Research tax credit</td>
<td>(3)</td>
</tr>
<tr>
<td>Medicare Part D law change</td>
<td>7</td>
</tr>
<tr>
<td>Wage credit</td>
<td>(8)</td>
</tr>
<tr>
<td>IRS settlement</td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>4</td>
</tr>
<tr>
<td>Total federal income taxes</td>
<td>71</td>
</tr>
</tbody>
</table>

**Uncertain Tax Positions**—During 2010, Northrop Grumman reached final approval from the IRS and the U.S. Congressional Joint Committee on Taxation of the IRS’ examination of Northrop Grumman’s tax returns for the years 2004-2006. As a result of this settlement, the company recognized tax benefits of $8 million as a reduction to the provision for income taxes. In connection with the settlement, the company also recorded a reduction of $10 million to its liability for uncertain tax positions, including previously accrued interest, of $2 million.

As of December 31, 2010, the estimated value of the company’s uncertain tax positions, which are more-likely-than-not to be sustained on examination, was a liability of $17 million, including accrued interest of $3 million. This liability is included in other long-term liabilities in the consolidated statements of financial position. Assuming sustainment of these positions, the reversal of the amounts accrued would reduce the company’s effective tax rate.

**Unrecognized Tax Benefits**—Unrecognized tax benefits represent the gross value of the company’s tax positions that have not been reflected in the consolidated statements of operations, and include the value of the company’s recorded uncertain tax positions. If the income tax benefits from federal tax positions are ultimately realized, such realization would affect the company’s effective tax rate whereas the realization of state tax benefits would be recorded in cost of product sales, cost of service revenues and corporate home office and other general and
administrative expenses. The changes in unrecognized tax benefits (exclusive of interest) during 2010, 2009 and 2008 are summarized in the table below:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Unrecognized tax benefits at beginning of the year</td>
<td>$21</td>
</tr>
<tr>
<td>Additions based on tax positions related to the current year</td>
<td>1</td>
</tr>
<tr>
<td>Additions for tax positions of prior years</td>
<td>1</td>
</tr>
<tr>
<td>Statute expiration</td>
<td></td>
</tr>
<tr>
<td>Settlement</td>
<td>(8)</td>
</tr>
<tr>
<td>Net change in unrecognized tax benefits</td>
<td>(7)</td>
</tr>
<tr>
<td>Unrecognized tax benefits at end of the year</td>
<td>$14</td>
</tr>
</tbody>
</table>

Although the company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could be greater than the company’s accrued position. Accordingly, additional provisions on federal and state tax related matters could be recorded in the future as revised estimates are made or the underlying matters are effectively settled or otherwise resolved.

Deferred Income Taxes—Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. Such amounts are classified in the consolidated statements of financial position as current or noncurrent assets or liabilities based upon the classification of the related assets and liabilities.

The tax effects of significant temporary differences and carryforwards that gave rise to year-end deferred federal and state tax balances, as presented in the consolidated statements of financial position, are as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Deferred Tax Assets</td>
<td></td>
</tr>
<tr>
<td>Retirement benefits</td>
<td>$404</td>
</tr>
<tr>
<td>Workers’ compensation</td>
<td>226</td>
</tr>
<tr>
<td>Contract accounting differences</td>
<td>72</td>
</tr>
<tr>
<td>Provisions for accrued liabilities</td>
<td>66</td>
</tr>
<tr>
<td>Stock-based compensation</td>
<td>24</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
</tr>
<tr>
<td>Gross deferred tax assets</td>
<td>796</td>
</tr>
<tr>
<td>Less valuation allowance</td>
<td></td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td>796</td>
</tr>
<tr>
<td>Deferred Tax Liabilities</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>372</td>
</tr>
<tr>
<td>Purchased intangibles</td>
<td>239</td>
</tr>
<tr>
<td>Gross deferred tax liabilities</td>
<td>611</td>
</tr>
<tr>
<td>Total net deferred tax assets</td>
<td>$185</td>
</tr>
</tbody>
</table>

During 2010, the company performed a comprehensive review of the classification treatment of its deferred tax assets and liabilities and identified certain reclassifications that changed the 2009 presentation of deferred tax
assets, primarily for retirement benefits and workers’ compensation liabilities. Such reclassifications also increased the net current deferred tax assets and net noncurrent deferred tax liabilities previously presented as of December 31, 2009 by $35 million.

Net deferred tax assets (liabilities) as presented in the consolidated statements of financial position are as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Net current deferred tax assets</td>
<td>$284</td>
</tr>
<tr>
<td>Net non-current deferred tax liabilities</td>
<td>(99)</td>
</tr>
<tr>
<td>Total net deferred tax assets</td>
<td>$185</td>
</tr>
</tbody>
</table>

11. LONG-TERM DEBT

Mississippi Economic Development Revenue Bonds—As of December 31, 2010, and 2009, the company had $83.7 million outstanding from the issuance of Industrial Revenue Bonds issued by the Mississippi Business Finance Corporation. These bonds accrue interest at a fixed rate of 7.81 percent per annum (payable semi-annually), and mature in 2024. Repayment of principal and interest is guaranteed by Northrop Grumman Systems Corporation (a wholly owned subsidiary of Northrop Grumman). In accordance with the terms of the bonds, the proceeds have been used to finance the construction, reconstruction, and renovation of the company’s interest in certain ship manufacturing and repair facilities, or portions thereof, located in the state of Mississippi.

Gulf Opportunity Zone Industrial Development Revenue Bonds—As of December 31, 2010, the company had $22 million outstanding from the issuance of Gulf Opportunity Zone Industrial Development Revenue Bonds (GO Zone IRBs) issued by the Mississippi Business Finance Corporation. The initial issuance of the GO Zone IRBs was for $200 million of principal value, and in November 2010, in connection with the anticipated spin-off, NGSB, purchased $178 million of the bonds using the proceeds from a $178 million intercompany loan with Northrop Grumman (see Note 19). The remaining bonds accrue interest at a fixed rate of 4.55 percent per annum (payable semi-annually), and mature in 2028. Repayment of principal and interest is guaranteed by Northrop Grumman. In accordance with the terms of the bonds, the proceeds have been used to finance the construction, reconstruction, and renovation of the company’s interest in certain ship manufacturing and repair facilities, or portions thereof, located in the state of Mississippi. Repayment of principal for the bonds listed in the table below is contractually obligated when the bonds mature in 2024 and 2028.

The carrying amounts and the related estimated fair values of the company’s long-term debt at December 31, 2010, and 2009, are shown below. The fair value of the long-term debt was calculated based on recent trades, if available, or interest rates prevailing on debt with terms and maturities similar to the company’s existing debt arrangements.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$ 105</td>
<td>$128</td>
</tr>
</tbody>
</table>

12. BUSINESS ARRANGEMENTS

NGSB periodically enters into business arrangements with non-affiliated entities. These arrangements generally consist of joint ventures designed to deliver collective capabilities that would not have been available to the venture’s participants individually, and also provide a single point of contact during contract performance to the entity’s principal customer. In some arrangements, each equity participant receives a subcontract from the joint venture for a pre-determined scope of work. In other cases, the arrangements rely primarily on the assignment of
key personnel to the venture from each equity participant rather than subcontracts for a specific work scope. Based on the terms of these arrangements and the relevant GAAP related to consolidation accounting for such entities, the company does not consolidate the financial position, results of operations and cash flows of these entities into its consolidated financial statements, but accounts for them under the equity method. NGSB has recorded operating income related to earnings from equity method investments of $19 million, $10 million and $1 million in its results of operations within the cost of service revenues for the years ended December 31, 2010, 2009, and 2008, respectively. To the extent subcontracts are used in these arrangements, NGSB’s subcontract activities are recorded in the same manner as sales to non-affiliated entities. The assets, liabilities, results of operations and cash flows of these collaborative entities were not material to the company’s consolidated financial position, results of operations and cash flows for any period presented.

13. LITIGATION

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 or treble damages. U.S. Government regulations provide that certain findings against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for a company or an operating division or subdivision. Suspension or debarment could have a material adverse effect on the company because of its reliance on government contracts.

In the second quarter of 2007, the U.S. Coast Guard issued a revocation of acceptance under the Deepwater Modernization Program for eight converted 123-foot patrol boats (the vessels) based on alleged “hull buckling and shaft alignment problems” and alleged “nonconforming topside equipment” on the vessels. The company submitted a written response that argued that the revocation of acceptance was improper. The Coast Guard advised Integrated Coast Guard Systems, LLC (ICGS), which was formed by Northrop Grumman and Lockheed Martin to perform the Deepwater Modernization Program, that it was seeking approximately $96 million from ICGS as a result of the revocation of acceptance. The majority of the costs associated with the 123-foot conversion effort are associated with the alleged structural deficiencies of the vessels, which were converted under contracts with the company and a subcontractor to the company. In 2008, the Coast Guard advised ICGS that the Coast Guard would support an investigation by the U.S. Department of Justice of ICGS and its subcontractors instead of pursuing its $96 million claim independently. The Department of Justice conducted an investigation of ICGS under a sealed False Claims Act complaint filed in the U.S. District Court for the Northern District of Texas and decided in early 2009 not to intervene at that time. On February 12, 2009, the District Court unsealed the complaint filed by Michael J. DeKort, a former Lockheed Martin employee, against ICGS, Lockheed Martin Corporation and the company relating to the 123-foot conversion effort. Damages under the False Claims Act are subject to trebling. On October 15, 2009, the three defendants moved to dismiss the Fifth Amended complaint. On April 5, 2010, the District Court ruled on the defendants’ motions to dismiss, granting them in part and denying them in part. As to the company, the District Court dismissed conspiracy claims and those pertaining to the C4ISR systems. On October 27, 2010, the District Court entered summary judgment for the company on DeKort’s hull, mechanical and electrical (“HM&E”) claims brought against the company. On November 10, 2010, the DeKort acknowledged that with the dismissal of the HM&E claims, no issues remained against the company for trial and the District Court subsequently vacated the December 1, 2010 trial. On November 12, 2010, DeKort filed a motion for reconsideration regarding the District Court’s denial of his motion to amend the Fifth Amended Complaint. On November 19, 2010, DeKort filed a second motion for reconsideration regarding the District Court’s order granting summary judgment on the HM&E claims. Based upon the information available to the company to date, the company believes that it has substantive defenses to any potential claims but can give no assurance that the company will prevail in this litigation.

Based upon the available information regarding matters that are subject to U.S. Government investigations, the company believes that the outcome of any such matters would not have a material adverse effect on its consolidated financial position, results of operations or cash flows.
Asbestos-Related Claims—NGSB and its predecessors in interest are defendants in a long-standing series of cases filed in numerous jurisdictions around the country wherein former and current employees and various third party persons allege exposure to asbestos-containing materials on NGSB premises or while working on vessels constructed or repaired by NGSB. Some cases allege exposure to asbestos-containing materials through contact with company employees and third persons who were on the premises. The cases allege various injuries including those associated with pleural plaque disease, asbestosis, cancer, mesothelioma and other alleged asbestos related conditions. In some cases, in addition to the company, several of its former executive officers are also named defendants. In some instances, partial or full insurance coverage is available to the company for its liability and that of its former executive officers. Because of the varying nature of these actions, and based upon the information available to the company to date, the company believes it has substantive defenses in many of these cases but can give no assurance that it will prevail on all claims in each of these cases. The company believes that the ultimate resolution of these cases will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Litigation—Various claims and legal proceedings arise in the ordinary course of business and are pending against the company and its properties. Based upon the information available, the company believes that the resolution of any of these various claims and legal proceedings would not have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Subsequent Event—On January 31, 2011, the U.S. Department of Justice first informed Northrop Grumman and the company of a False Claims Act complaint that the company believes was filed under seal by a relator (the plaintiff) in mid-2010 in the United States District Court for the District of Columbia. The redacted copy of the complaint that the company received (“Complaint”) alleges that through largely unspecified fraudulent means Northrop Grumman and the company obtained federal funds that were restricted by law for the consequences of Hurricane Katrina (“Katrina”), and used those funds to cover costs under certain shipbuilding contracts that were unrelated to Katrina and for which Northrop Grumman and the company were not entitled to recovery under the contracts. The Complaint seeks monetary damages of at least $835 million, plus penalties, attorney’s fees and other costs of suit. Damages under the False Claims Act may be trebled upon a finding of liability.

For several years, Northrop Grumman has pursued recovery under its insurance policies for Katrina related property damage and business interruption losses. One of the insurers involved in those actions has made allegations that overlap significantly with certain of the issues raised in the Complaint, including allegations that Northrop and the company used certain Katrina related funds for losses under the contracts unrelated to the hurricane. Northrop Grumman and the company believe that the insurer’s defenses, including those related to the use of Katrina funding, are without merit.

The company has agreed to cooperate with the government investigation relating to the False Claims Act Complaint. The company has been advised that the Department of Justice has not made a decision whether to intervene. Based upon a review to date of the information available to the company, the company believes that it has substantive defenses to the allegations in the Complaint. The company believes that the claims as set forth in the Complaint evidence a fundamental lack of understanding of the terms and conditions in the company’s shipbuilding contracts, including the post-Katrina modifications to those contracts, and the manner in which the parties performed in connection with the contracts. Based upon a review to date of the information available to the company, the company believes that the claims as set forth in the Complaint lack merit and are not likely to result in a material adverse effect on its consolidated financial position. The company intends vigorously to defend the matter, but the company cannot predict what new or revised claims might be asserted or what information might come to light so can give no assurances regarding the ultimate outcome.

14. COMMITMENTS AND CONTINGENCIES

Contract Performance Contingencies—Contract profit margins may include estimates of revenues not contractually agreed to between the customer and the company for matters such as settlements in the process
NORTHROP GRUMMAN SHIPBUILDING
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

of negotiation, contract changes, claims and requests for equitable adjustment for previously unanticipated contract costs. These estimates are based upon management’s best assessment of the underlying causal events and circumstances, and are included in determining contract profit margins to the extent of expected recovery based on contractual entitlements and the probability of successful negotiation with the customer. As of December 31, 2010, the recognized amounts related to claims and requests for equitable adjustment are not material individually or in the aggregate.

Guarantees of Performance Obligations—From time to time in the ordinary course of business, Northrop Grumman guaranteed performance obligations of NGSB under certain contracts. NGSB may enter into joint ventures, teaming and other business arrangements (Business Arrangements) to support the company’s products and services. NGSB generally strives to limit its exposure under these arrangements to its investment in the Business Arrangement, or to the extent of obligations under the applicable contract. In some cases, however, Northrop Grumman may be required to guarantee performance of the Business Arrangement and, in such cases, generally obtains cross-indemnification from the other members of the Business Arrangement. At December 31, 2010, the company is not aware of any existing event of default that would require Northrop Grumman to satisfy any of these guarantees.

NGSB Quality Issues—In conjunction with a second quarter 2009 review of design, engineering and production processes at the Gulf Coast undertaken as a result of leaks discovered in the USS San Antonio’s (LPD 17) lube oil system, the company became aware of quality issues relating to certain pipe welds on ships under production as well as those that had previously been delivered. Since that discovery, the company has been working with the U.S. Navy to determine the nature and extent of the pipe weld issue and its possible impact on related shipboard systems. This effort has resulted in the preparation of a technical analysis of the problem, additional inspections on the ships, a rework plan for ships previously delivered and in various stages of production, and modifications to the work plans for ships being placed into production, all of which has been done with the knowledge and support of the U.S. Navy. NGSB responsible incremental costs associated with the anticipated resolution of these matters have been reflected in the financial performance analysis and contract booking rates beginning with the second quarter of 2009.

In the fourth quarter of 2009, certain bearing wear and debris were found in the lubrication system of the main propulsion diesel engines (MPDE) installed on LPD 21. NGSB is participating with the U.S. Navy and other industry participants involved with the MPDEs in a review panel established by the U.S. Navy to examine the MPDE lubrication system’s design, construction, operation and maintenance for the LPD 17 class of ships. The team is focusing on identification and understanding of the root causes of the MPDE diesel bearing wear and the debris in the lubrication system and potential future impacts on maintenance costs. To date the review has identified several potential system improvements for increasing the system reliability. Certain changes are being implemented on ships under construction at this time and the U.S. Navy is implementing some changes on in-service ships in the class at the earliest opportunity. The U.S. Navy has requested a special MPDE flush procedure be used on LPDs 22 through 25 under construction at the Gulf Coast shipyards. The company has informed the U.S. Navy of its position that should the U.S. Navy direct use of this new flush procedure, the company believes such direction would be a change to the contracts for all LPDs under construction, and that such a change would entitle the company to an equitable adjustment to cover the cost and schedule impacts. However, the company can give no assurance that the U.S. Navy will agree that any such direction would constitute a contract change.

In July 2010, the Navy released its report documenting the results of a Judge Advocate General’s manual (JAGMAN) investigation of the failure of MPDE bearings on LPD 17 subsequent to the Navy’s Planned Maintenance Availability (PMA), which was completed in October 2009. During sea trials following the completion of the Navy conducted PMA, one of the ship’s MPDEs suffered a casualty as the result of a bearing failure. The JAGMAN investigation determined that the bearing failure could be attributed to a number of possible factors, including deficiencies in the acquisition process, maintenance, training, and execution of shipboard programs, as well as debris from the construction process. NGSB’s technical personnel reviewed the JAGMAN report and
provided feedback to the Navy on the report recommending that the company and the Navy perform a comprehensive review of the LPD 17 Class propulsion system design and its associated operation and maintenance procedure in order to enhance reliability. Discussions between the company and the Navy on this recommendation are ongoing.

The company and the U.S. Navy continue to work in partnership to investigate and identify any additional corrective actions to address quality issues associated with ships manufactured in the company’s Gulf Coast shipyards and the company will implement appropriate corrective actions. The company does not believe that the ultimate resolution of the matters described above will have a material adverse effect upon its consolidated financial position, results of operations or cash flows.

The company has also encountered various quality issues on its Aircraft Carrier construction and overhaul programs and its Virginia Class Submarine construction program at its Newport News location. These primarily involve matters related to filler metal used in pipe welds identified in 2007, and in 2009, issues associated with non-nuclear weld inspection and the installation of weapons handling equipment on certain submarines, and certain purchased material quality issues. The company does not believe that resolution of these issues will have a material adverse effect upon its consolidated financial position, results of operations or cash flows.

*Environmental Matters* — The estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future to address environmental impacts 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 other environmental agencies. 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 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 in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that as of December 31, 2010, the probable future costs for environmental remediation sites is $3 million, which is accrued in other current liabilities. 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 have to incur costs in addition to those already estimated and accrued. In addition, there are some potential remediation sites where the costs of remediation cannot be reasonably estimated. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company’s consolidated financial position, results of operations, or cash flows.

*Collective Bargaining Agreements* — The company believes that it maintains good relations with its 39,000 employees, of which approximately 50 percent are covered by 10 collective bargaining agreements. The company successfully negotiated a two-year extension to the collective bargaining agreements at its Gulf Coast locations that were to expire in 2010. It is not expected that the results of these negotiations will, either individually or in the aggregate, have a material adverse effect on the company’s consolidated results of operations.

*Financial Arrangements* — In the ordinary course of business, Northrop Grumman uses standby letters of credit issued by commercial banks and surety bonds issued by insurance companies principally to guarantee the performance on certain contracts and to support the company’s self-insured workers’ compensation plans. At December 31, 2010, there were $125 million of unused stand-by letters of credit and $296 million of surety bonds outstanding related to NGSB.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

U.S. Government Claims—From time to time, customers advise the company of claims and penalties concerning certain potential disallowed costs. When such findings are presented, Northrop Grumman, the company and the U.S. Government representatives engage in discussions to enable Northrop Grumman and NGSB to evaluate the merits of these claims as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect the expected exposure to the matters raised by the U.S. Government representatives and such provisions are reviewed on a quarterly basis for sufficiency based on the most recent information available. Northrop Grumman and the company do not believe that the outcome of any such matters would have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

Operating Leases—Rental expense for operating leases was $44 million in 2010, $48 million in 2009, and $41 million in 2008. These amounts are net of immaterial amounts of sublease rental income. Minimum rental commitments under long-term noncancellable operating leases as of December 31, 2010, total approximately $137 million, which are payable as follows: 2011—$21 million; 2012—$20 million; 2013—$16 million; 2014—$14 million; 2015—$11 million; and thereafter—$55 million.

15. IMPACTS FROM HURRICANES

In 2008, a subcontractor’s operations in Texas were severely impacted by Hurricane Ike. The subcontractor produces compartments for two of the LPD amphibious transport dock ships under construction at the Gulf Coast shipyards. As a result of the delays and cost growth caused by the subcontractor’s production delays, NGSB’s operating income was reduced by approximately $16 million during 2008. In the first quarter of 2010, the company received $17 million in final settlement of its claim, which was recorded as a reduction to cost of product sales.

In August 2005, the company’s Gulf Coast operations were significantly impacted by Katrina and the company’s shipyards in Louisiana and Mississippi sustained significant windstorm damage from the hurricane. As a result of the storm, the company incurred costs to replace or repair destroyed or damaged assets, suffered losses under its contracts, and incurred substantial costs to clean up and recover its operations. As of the date of the storm, the company had a comprehensive insurance program that provided coverage for, among other things, property damage, business interruption impact on net profitability, and costs associated with clean-up and recovery. The company expects that its remaining claim will be resolved separately with the two remaining insurers, Factory Mutual Insurance Company (FM Global) and Munich-American Risk Partners (Munich Re) (see Note 16).

The company has full entitlement to any insurance recoveries related to business interruption impacts on net profitability resulting from these hurricanes. However, because of uncertainties concerning the ultimate determination of recoveries related to business interruption claims, no such amounts are recognized until they are resolved with the insurers. Furthermore, due to the uncertainties with respect to the company’s disagreement with FM Global in relation to the Katrina claim, no receivables have been recognized by the company in the accompanying consolidated financial statements for insurance recoveries from FM Global.

In accordance with U.S. Government cost accounting regulations affecting the majority of the company’s contracts, the cost of insurance premiums for property damage and business interruption coverage, other than “coverage of profit,” is an allowable expense that may be charged to contracts. Because a substantial portion of long-term contracts at the shipyards is flexibly-priced, the U.S. Navy would benefit from a portion of insurance recoveries in excess of the net book value of damaged assets. When such insurance recoveries occur, the company is obligated to provide the benefit of a portion of these amounts to the government. In recent discussions, the U.S. Navy has expressed its intention to challenge the allowability of certain post-Katrina depreciation costs charged or expected to be charged on contracts under construction in the Gulf Coast shipyards. It is premature to estimate the amount, if any, that the U.S. Navy will ultimately challenge. The company believes all of the replacement costs should be recoverable under its insurance coverage and the amounts that may be challenged are included in the insurance claim. However, if NGSB is unsuccessful in its insurance recovery, the company believes there are specific rules in the CAS and FAR that should still render the depreciation on those assets allowable and recoverable through its contracts with the U.S. Navy as these replacement costs provide benefit to the government.
The company believes that its depreciation practices are in conformity with the FAR, and that, if the U.S. Navy were to challenge the allowability of such costs, the company should be able to successfully resolve this matter with no material adverse effect to the company’s consolidated financial position, results of operations or cash flows.

16. HURRICANE KATRINA INSURANCE RECOVERIES

The company is pursuing legal action against an insurance provider, FM Global, arising out of a disagreement concerning the coverage of certain losses related to Katrina (see Note 15). Legal action commenced against FM Global on November 4, 2005, which is now pending in the U.S. District Court for the Central District of California, Western Division. In August 2007, the District Court issued an order finding that the excess insurance policy provided coverage for the company’s Katrina-related loss. FM Global appealed the District Court’s order and on August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of the Northrop Grumman’s interest, holding that the FM Global excess policy unambiguously excludes damage from the storm surge caused by Katrina under its “Flood” exclusion. The Ninth Circuit remanded the case to the District Court to determine whether the California efficient proximate cause doctrine affords Northrop Grumman coverage under the policy even if the Flood exclusion of the policy is unambiguous. On April 2, 2009, the Ninth Circuit denied Northrop Grumman’s Petition for Rehearing and remanded the case to the District Court. On June 10, 2009, Northrop Grumman filed a motion seeking leave of court to file a complaint adding Aon Risk Services, Inc. of Southern California (Aon) as a defendant. On July 1, 2009, FM Global filed a motion for partial summary judgment seeking a determination that the California efficient proximate cause doctrine is not applicable or that it affords no coverage under the policy. On August 26, 2010, the District Court denied Northrop Grumman’s motion to add Aon as a defendant to the case pending in the District Court, finding that Northrop Grumman has a viable option to bring suit against Aon in state court. Also on August 26, the District Court granted FM Global’s motion for summary judgment based upon California’s doctrine of efficient proximate cause, and denied FM Global’s motion for summary judgment based upon breach of contract, finding that triable issues of fact remained as to whether and to what extent the company sustained wind damage apart from the storm surge. Northrop Grumman believes that it is entitled to full reimbursement of its covered losses under the excess policy. The District Court has scheduled trial on the merits for April 3, 2012. On January 27, 2011, Northrop Grumman filed an action against Aon Insurance Services West, Inc., formerly known as Aon Risk Services, Inc. of Southern California, in Superior Court in California alleging breach of contract, professional negligence, and negligent misrepresentation. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of these matters. However, if either of the claims are successful, the potential effect to the company’s consolidated financial position, results of operations, or cash flows would be favorable.

During 2008, notification from Munich Re, the only remaining insurer within the primary layer of insurance coverage with which a resolution has not been reached, was received noting that it will pursue arbitration proceedings against Northrop Grumman related to approximately $19 million owed by Munich Re to Northrop Grumman Risk Management Inc. (NGRM), a wholly owned subsidiary of Northrop Grumman, for certain losses related to Katrina. An arbitration was later invoked by Munich Re in the United Kingdom under the reinsurance contract. Northrop Grumman was subsequently notified that Munich Re is seeking reimbursement of approximately $44 million of funds previously advanced to NGRM for payment of claim losses of which Munich Re provided reinsurance protection to NGRM pursuant to an executed reinsurance contract, and $6 million of adjustment expenses. The arbitral panel has set a hearing for November 14, 2011. Northrop Grumman and the company believe that NGRM is entitled to full reimbursement of its covered losses under the reinsurance contract and has substantive defenses to the claim of Munich Re for return of the funds paid to date. If the matters are resolved in NGRM’s favor, then it would be entitled to the remaining $19 million owed for covered losses and it would have no further obligations to Munich Re. Payments to be made to NGRM in connection with this matter would be for the benefit of the company and reimbursements to be made to Munich Re would be made by the company, if any.
17. RETIREMENT BENEFITS

Plan Descriptions

**Defined Benefit Pension Plans**—The company participates in several defined benefit pension plans of Northrop Grumman covering the majority of its employees. Pension benefits for most employees are based on the employee’s years of service and compensation. It is the policy of Northrop Grumman to fund at least the minimum amount required for all the sponsored plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into benefit trusts separate from Northrop Grumman. The pension benefit for most employees is based upon criteria whereby employees earn age and service points over their employment period.

**Defined Contribution Plans**—The company also participates in Northrop Grumman-sponsored 401(k) defined contribution plans in which most employees are eligible to participate, as well as certain union employees. Northrop Grumman contributions for most plans are based on a cash matching of company employee contributions up to 4 percent of compensation. Certain hourly employees are covered under a target benefit plan. In addition to the 401(k) defined contribution benefit, non-union represented company employees hired after June 30, 2008, are eligible to participate in a Northrop Grumman-sponsored defined contribution program in lieu of a defined benefit pension plan. Northrop Grumman’s contributions to these defined contribution plans for company employees for the years ended December 31, 2010, 2009, and 2008, were $51 million, $50 million, and $49 million, respectively.

**Medical and Life Benefits**—The company participates in several health care plans of Northrop Grumman by which the company provides a portion of the costs for certain health and welfare benefits for a significant number of its active and retired employees. Covered employees achieve eligibility to participate in these contributory plans upon retirement from active service if they meet specified age and years of service requirements. Qualifying dependents are also eligible for medical coverage. Northrop Grumman reserves the right to amend or terminate the plans at any time. In November 2006, the company adopted plan amendments and communicated to plan participants that it would cap the amount of its contributions to substantially all of its remaining post retirement medical and life benefit plans that were previously not subject to limits on the company’s contributions.

In addition to a medical inflation cost-sharing feature, the plans also have provisions for deductibles, co-payments, coinsurance percentages, out-of-pocket limits, conformance to a schedule of reasonable fees, the use of managed care providers, and maintenance of benefits with other plans. The plans also provide for a Medicare carve-out, and a maximum lifetime benefit of $2 million per covered individual. Effective January 1, 2011, the company elected to remove the maximum lifetime benefit cap for all company sponsored medical plans due to passage of the new health care legislation described below. Subsequent to July 1, 2003, and January 1, 2004, for Gulf Coast and Virginia operations, respectively, newly hired employees are not eligible for post employment medical and life benefits.

The effect of the Medicare prescription drug subsidy from the Medicare Prescription Drug, Improvement and Modernization Act of 2003 to reduce the company’s net periodic postretirement benefit cost was not material for the periods presented and accumulated postretirement benefit obligation was $26 million and $28 million as of December 31, 2010 and 2009, respectively.

**New Health Care Legislation**—The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act became law during the first quarter of 2010. These new laws will impact the company’s costs of providing health care benefits to its employees beginning in 2011. The initial passage of the laws will eliminate the company’s tax benefits under the Medicare prescription drug subsidies associated with the Medicare Prescription Drug, Improvement and Modernization Act of 2003 beginning in 2013. The impact from the elimination of these tax benefits was recorded in the consolidated financial statements (see Note 10). The company has also begun participation in the Early Retiree Reinsurance Program (ERRP) that became effective on June 1, 2010. The company continues to assess the extent to which the provisions of the new laws will affect its future health care and related employee benefit plan costs.
### Summary Plan Results

The cost to the company of its retirement benefit plans in each of the three years ended December 31 is shown in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$127</td>
<td>$114</td>
<td>$130</td>
<td>$15</td>
<td>$15</td>
<td>$14</td>
</tr>
<tr>
<td>Interest cost</td>
<td>182</td>
<td>169</td>
<td>156</td>
<td>38</td>
<td>40</td>
<td>39</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(232)</td>
<td>(193)</td>
<td>(231)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of Prior service cost</td>
<td>13</td>
<td>13</td>
<td>7</td>
<td>(9)</td>
<td>(9)</td>
<td>(14)</td>
</tr>
<tr>
<td>Amortization of Prior service cost (credit)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>38</td>
<td>48</td>
<td>2</td>
<td>8</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$128</td>
<td>$151</td>
<td>$64</td>
<td>$52</td>
<td>$55</td>
<td>$54</td>
</tr>
</tbody>
</table>

The table below summarizes the changes in the components of unrecognized benefit plan costs for the years ended December 31, 2010, 2009, and 2008.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net actuarial loss</td>
<td>$640</td>
<td>$41</td>
<td>$599</td>
</tr>
<tr>
<td>Change in prior service cost</td>
<td>57</td>
<td>31</td>
<td>88</td>
</tr>
<tr>
<td>Amortization of Prior service cost (credit)</td>
<td>(7)</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>(2)</td>
<td>(15)</td>
<td>(17)</td>
</tr>
<tr>
<td>Tax (expense) benefits related to above items</td>
<td>(268)</td>
<td>4</td>
<td>(264)</td>
</tr>
<tr>
<td>Changes in unamortized benefit plan costs—2008</td>
<td>420</td>
<td>(7)</td>
<td>413</td>
</tr>
<tr>
<td>Change in net actuarial loss</td>
<td>(76)</td>
<td>(5)</td>
<td>(81)</td>
</tr>
<tr>
<td>Change in prior service cost (credit)</td>
<td>1</td>
<td>(1)</td>
<td>—</td>
</tr>
<tr>
<td>Amortization of Prior service cost (credit)</td>
<td>(13)</td>
<td>9</td>
<td>(4)</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>(48)</td>
<td>(9)</td>
<td>(57)</td>
</tr>
<tr>
<td>Tax benefits related to above items</td>
<td>54</td>
<td>2</td>
<td>56</td>
</tr>
<tr>
<td>Changes in unamortized benefit plan costs—2009</td>
<td>(82)</td>
<td>(4)</td>
<td>(86)</td>
</tr>
<tr>
<td>Change in net actuarial loss</td>
<td>17</td>
<td>15</td>
<td>32</td>
</tr>
<tr>
<td>Transfers</td>
<td>6</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Amortization of Prior service cost (credit)</td>
<td>(13)</td>
<td>9</td>
<td>(4)</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>(38)</td>
<td>(8)</td>
<td>(46)</td>
</tr>
<tr>
<td>Tax benefits (expense) related to above items</td>
<td>11</td>
<td>(15)</td>
<td>(4)</td>
</tr>
<tr>
<td>Changes in unamortized benefit plan costs—2010</td>
<td>$ (17)</td>
<td>$1</td>
<td>$(16)</td>
</tr>
</tbody>
</table>

The changes in the unamortized benefit plan costs, net of tax, are included in other comprehensive income in the consolidated statements of operations. Unamortized benefit plan costs consist primarily of net after-tax actuarial loss amounts totaling $487 million, $489 million, and $573 million as of December 31, 2010, 2009, and 2008, respectively. Net actuarial gains or losses are determined annually and principally arise from gains or losses on plan assets due to variations in the fair market value of the underlying assets, and changes in the benefit obligation due to...
changes in actuarial assumptions. Net actuarial gains or losses are amortized to expense in future periods when they exceed ten percent of the greater of the plan assets or projected benefit obligations by plan. The excess of gains or losses over the ten percent threshold is subject to amortization over the average future service period of employees of approximately ten years.

The following tables set forth the funded status and amounts recognized in the consolidated statements of financial position for the Northrop Grumman-sponsored defined benefit pension and retiree health care and life insurance benefit plans. Pension benefits data include the qualified plans as well as several unfunded non-qualified plans for benefits provided to directors, officers, and certain employees. The company uses a December 31 measurement date for all of its plans.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Change in Benefit Obligation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$3,062</td>
<td>$2,756</td>
</tr>
<tr>
<td>Service cost</td>
<td>127</td>
<td>114</td>
</tr>
<tr>
<td>Interest cost</td>
<td>182</td>
<td>169</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Plan amendments</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>145</td>
<td>114</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(106)</td>
<td>(98)</td>
</tr>
<tr>
<td>Transfers</td>
<td>37</td>
<td></td>
</tr>
<tr>
<td>Curtailment</td>
<td>(14)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>3,442</td>
<td>3,062</td>
</tr>
<tr>
<td><strong>Change in Plan Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>2,789</td>
<td>2,297</td>
</tr>
<tr>
<td>Gain on plan assets</td>
<td>347</td>
<td>384</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>105</td>
<td>201</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>9</td>
<td>5</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(106)</td>
<td>(98)</td>
</tr>
<tr>
<td>Transfers</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>3,183</td>
<td>2,789</td>
</tr>
<tr>
<td>Funded status</td>
<td>$ (259)</td>
<td>$ (273)</td>
</tr>
<tr>
<td><strong>Amounts Recognized in the Consolidated Statements of Financial Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td>$ 131</td>
<td>$ 116</td>
</tr>
<tr>
<td>Current liability</td>
<td>(9)</td>
<td>(10)</td>
</tr>
<tr>
<td>Non-current liability</td>
<td>(381)</td>
<td>(379)</td>
</tr>
</tbody>
</table>
The following table shows those amounts expected to be recognized in net periodic benefit cost in 2011:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$ 34</td>
<td>$ 9</td>
</tr>
<tr>
<td>Prior service cost (credit)</td>
<td>12</td>
<td>(9)</td>
</tr>
</tbody>
</table>

The accumulated benefit obligation allocated from all of the Northrop Grumman-sponsored defined benefit pension plans in which company employees participate was $3.2 billion and $2.8 billion at December 31, 2010, and 2009, respectively.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2009</td>
<td>2010</td>
</tr>
<tr>
<td>Amounts Recorded in Accumulated Other Comprehensive Loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net actuarial loss</td>
<td>$ 640</td>
<td>$ 654</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>99</td>
<td>111</td>
</tr>
<tr>
<td>Income tax benefits related to above items</td>
<td>(287)</td>
<td>(298)</td>
</tr>
<tr>
<td>Unamortized benefit plan costs</td>
<td>$ 452</td>
<td>$ 467</td>
</tr>
</tbody>
</table>

Amounts for pension plans with accumulated benefit obligations in excess of fair value of plan assets associated with company employees are as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Projected benefit obligation</td>
<td>$2,771</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>2,531</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>2,381</td>
</tr>
</tbody>
</table>
Plan Assumptions

On a weighted-average basis, the following assumptions were used to determine the benefit obligations and the net periodic benefit cost.

### Assumptions Used to Determine Benefit Obligation at December 31

<table>
<thead>
<tr>
<th>Assumption/Rate</th>
<th>2010</th>
<th>2009</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>5.84%</td>
<td>6.04%</td>
<td>5.58%</td>
<td>5.84%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.43%</td>
<td>3.51%</td>
<td>8.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Initial health care cost trend rate assumed for the next year</td>
<td></td>
<td></td>
<td>8.00%</td>
<td>7.00%</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</td>
<td></td>
<td></td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td></td>
<td></td>
<td>2017</td>
<td>2014</td>
</tr>
</tbody>
</table>

### Assumptions Used to Determine Benefit Cost for the Year Ended December 31

<table>
<thead>
<tr>
<th>Assumption/Rate</th>
<th>2010</th>
<th>2009</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>6.04%</td>
<td>6.25%</td>
<td>5.84%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Expected long-term return on plan assets</td>
<td>8.50%</td>
<td>8.50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.51%</td>
<td>3.77%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial health care cost trend rate assumed for the next year</td>
<td></td>
<td></td>
<td>7.00%</td>
<td>7.50%</td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</td>
<td></td>
<td></td>
<td>5.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td></td>
<td></td>
<td>2014</td>
<td>2014</td>
</tr>
</tbody>
</table>

The discount rate is generally based on the yield on high-quality corporate fixed-income investments. At the end of each year, the discount rate is primarily determined using the results of bond yield curve models based on a portfolio of high-quality bonds matching the notional cash inflows with the expected benefit payments for each significant benefit plan.

The assumptions used for pension benefits are consistent with those used for retiree medical and life insurance benefits.

Through consultation with investment advisors, expected long-term returns for each of the plans’ strategic asset classes were developed by Northrop Grumman. Several factors were considered, including survey of investment managers’ expectations, current market data such as yields/price-earnings ratios, and historical market returns over long periods. Using policy target allocation percentages and the asset class expected returns, a weighted-average expected return was calculated.

A one-percentage-point change in the initial through the ultimate health care cost trend rates would have the following effects:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>1-Percentage-Point Increase</th>
<th>1-Percentage-Point Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase (Decrease) From Change In Health Care Cost Trend Rates To</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postretirement benefit expense</td>
<td>$ 2</td>
<td>$ (2)</td>
</tr>
<tr>
<td>Postretirement benefit liability</td>
<td>18</td>
<td>(18)</td>
</tr>
</tbody>
</table>

Plan Assets and Investment Policy

The retirement benefit plans’ assets in the NGSB Master Trust are invested in various asset classes that are expected to produce a sufficient level of diversification and investment return over the long term. The investment
goals are to exceed the assumed actuarial rate of return over the long term within reasonable and prudent levels of risk. Liability studies are conducted on a regular basis to provide guidance in setting investment goals with an objective to balance risk. Risk targets are established and monitored against acceptable ranges.

All investment policies and procedures are designed to ensure that the plans’ investments are in compliance with ERISA. Guidelines are established defining permitted investments within each asset class. Derivatives are used for transitioning assets, asset class rebalancing, managing currency risk, and for management of fixed income and alternative investments. The investment policies for most of the retirement benefit plans were changed effective January 1, 2010 and require that the asset allocation be maintained within the following ranges as of December 31, 2010:

<table>
<thead>
<tr>
<th>Asset Allocation Ranges</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. equity</td>
<td>15 – 35%</td>
</tr>
<tr>
<td>International equity</td>
<td>10 – 30%</td>
</tr>
<tr>
<td>Long bonds</td>
<td>25 – 45%</td>
</tr>
<tr>
<td>2010: Real estate and other</td>
<td>10 – 30%</td>
</tr>
</tbody>
</table>

As of December 31, 2010, the assets of NGSB’s retirement benefit plans were transferred into a separate NGSB Master Trust. The domestic equities, international equities and fixed income securities were transferred in-kind. For the real estate and other category, the NGSB Master Trust holds an interest in private equity, real estate, and hedge funds partnerships held in the Northrop Grumman Master Trust (NGSB Master Trust Partnership Interests). After the asset transfers, the NGSB Master Trust continues to be invested in accordance with the same investment policies and procedures described above. If the anticipated spin-off transaction discussed in Note 1 is completed, the NGSB Master Trust will be transferred to HII. In that event, the NGSB Master Trust Partnership Interests may be transferred in the form of cash. Subsequent to the anticipated spin-off transaction, the fiduciary of the NGSB retirement benefit plans may elect to change the investment policies of the NGSB Master Trust.

The table below represents the fair values of the NGSB Master Trust and the proportionate share of the fair values of NGSB’s retirement benefit plans assets held in the Northrop Grumman Master Trust at December 31, 2010, by asset category. The table that follows represents the proportionate share of the fair values of NGSB’s retirement benefit plan assets held in the Northrop Grumman Master Trust at December 31, 2009, by asset category. The tables also identify the level of inputs used to determine the fair value of assets in each category (see Note 1 for definition of levels). The significant amount of Level 2 investments in the tables results from including in this category investments in pooled funds that contain investments with values based on quoted market prices, but for
which the funds are not valued on a quoted market basis, and fixed income securities that are valued using model based pricing services.

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NGS B Master Trust:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic equities</td>
<td>$789</td>
<td></td>
<td>$789</td>
<td></td>
</tr>
<tr>
<td>International equities</td>
<td>6</td>
<td>$590</td>
<td></td>
<td>596</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents (1)</td>
<td></td>
<td>34</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td></td>
<td>268</td>
<td></td>
<td>268</td>
</tr>
<tr>
<td>Other U.S. Government Agency Securities</td>
<td></td>
<td>142</td>
<td></td>
<td>142</td>
</tr>
<tr>
<td>Non-U.S. Government Securities</td>
<td></td>
<td>32</td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>Corporate debt</td>
<td></td>
<td>564</td>
<td></td>
<td>564</td>
</tr>
<tr>
<td>Asset backed</td>
<td>86</td>
<td></td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>High yield debt</td>
<td>11</td>
<td></td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>Bank loans</td>
<td></td>
<td>1</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Interest in Northrop Grumman Master Trust:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate and other Hedge funds</td>
<td></td>
<td>181</td>
<td></td>
<td>181</td>
</tr>
<tr>
<td>Private equities</td>
<td></td>
<td>232</td>
<td></td>
<td>232</td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td>165</td>
<td></td>
<td>165</td>
</tr>
<tr>
<td>Other (2)</td>
<td></td>
<td>74</td>
<td></td>
<td>74</td>
</tr>
<tr>
<td><strong>Fair value of plan assets as of December 31, 2010</strong></td>
<td>$795</td>
<td>$1,802</td>
<td>$587</td>
<td>$3,184</td>
</tr>
</tbody>
</table>

(1) Cash & cash equivalents are predominantly held in money market funds and include a net payable for unsettled trades at year end.
(2) Other includes futures, swaps, options, swaptions, insurance contracts.
$ in millions

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest in Northrop Grumman Master Trust:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic equities</td>
<td>$ 507</td>
<td></td>
<td></td>
<td>$ 507</td>
</tr>
<tr>
<td>International equities</td>
<td>212</td>
<td>$ 218</td>
<td></td>
<td>430</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents (1)</td>
<td>17</td>
<td>272</td>
<td></td>
<td>289</td>
</tr>
<tr>
<td>U.S. Treasuries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other U.S. Government Agency Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Government Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corp orate debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset backed</td>
<td>96</td>
<td>96</td>
<td></td>
<td>192</td>
</tr>
<tr>
<td>High yield debt</td>
<td>67</td>
<td>8</td>
<td></td>
<td>75</td>
</tr>
<tr>
<td>Bank loans</td>
<td>12</td>
<td>12</td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>Real estate and other Hedge funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private equities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (2)</td>
<td></td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Fair value of plan assets as of December 31, 2009</td>
<td>$ 736</td>
<td>$1,488</td>
<td>$ 565</td>
<td>$2,789</td>
</tr>
</tbody>
</table>

(1) Cash & cash equivalents are predominantly held in money market funds
(2) Other includes futures, swaps, options, swaptions, insurance contracts and net payable for unsettled trades at year end.

At December 31, 2010 and 2009, the fair value of the plan assets of $3,184 million and $2,789 million, respectively in the tables above consisted entirely of assets for pension benefits.

The table below summarizes the changes in the fair value of the company’s retirement benefit plans’ assets measured using significant unobservable inputs for the years ended December 31, 2010 and 2009.

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>High Yield Debt</th>
<th>Hedge Funds</th>
<th>Private Equities</th>
<th>Real Estate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of December 31, 2008</td>
<td>$ 6</td>
<td>$169</td>
<td>$ 240</td>
<td>$ 168</td>
<td>$583</td>
</tr>
<tr>
<td>Actual return on plan assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets still held at reporting date</td>
<td>2</td>
<td>23</td>
<td>(16)</td>
<td>(57)</td>
<td>(48)</td>
</tr>
<tr>
<td>Assets sold during the period</td>
<td>(1)</td>
<td>(1)</td>
<td></td>
<td></td>
<td>(2)</td>
</tr>
<tr>
<td>Purchases, sales, and settlements</td>
<td>(3)</td>
<td>18</td>
<td></td>
<td>17</td>
<td>32</td>
</tr>
<tr>
<td>Balance as of December 31, 2009</td>
<td>8</td>
<td>188</td>
<td>242</td>
<td>127</td>
<td>565</td>
</tr>
<tr>
<td>Actual return on plan assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets still held at reporting date</td>
<td>2</td>
<td>14</td>
<td>24</td>
<td>12</td>
<td>52</td>
</tr>
<tr>
<td>Assets sold during the period</td>
<td>(1)</td>
<td>(1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases, sales, and settlements</td>
<td>10</td>
<td>8</td>
<td></td>
<td>48</td>
<td>66</td>
</tr>
<tr>
<td>Change in asset allocation mix</td>
<td>(1)</td>
<td>(31)</td>
<td>(42)</td>
<td></td>
<td>(95)</td>
</tr>
<tr>
<td>Balance as of December 31, 2010</td>
<td>$ 9</td>
<td>$181</td>
<td>$ 232</td>
<td>$ 165</td>
<td>$587</td>
</tr>
</tbody>
</table>
Generally, investments are valued based on information in financial publications of general circulation, statistical and valuation services, records of security exchanges, appraisal by qualified persons, transactions and bona fide offers. Domestic and international equities consist primarily of common stocks and institutional common trust funds. Investments in common and preferred shares are valued at the last reported sales price of the stock on the last business day of the reporting period. Units in common trust funds and hedge funds are valued based on the redemption price of units owned by the trusts at year-end. Fair value for real estate and private equity partnerships is primarily based on valuation methodologies that include third party appraisals, comparable transactions, discounted cash flow valuation models, and public market data.

Non-government fixed income securities are invested across various industry sectors and credit quality ratings. Generally, investment guidelines are written to limit securities, for example, to no more than five percent of each trust account, and to exclude the purchase of securities issued by Northrop Grumman. The number of real estate and private equity partnerships held by the Northrop Grumman Master Trust from which NGSB’s plan assets are allocated is 167 and the unfunded commitments for the trust are $1.2 billion and $1.1 billion as of December 31, 2010, and 2009, respectively. NGSB retirement benefit plans proportionate share of these unfunded commitments is approximately 11% and 13% for December 31, 2010, and 2009, respectively. For alternative investments that cannot be redeemed, such as limited partnerships, the typical investment term is ten years. For alternative investments that permit redemptions, such redemptions are generally made quarterly and require a 90-day notice. The company is generally unable to determine the final redemption amount until the request is processed by the investment fund and therefore categorizes such alternative investments as Level 3 assets.

At December 31, 2010, and 2009, the defined benefit pension trust did not hold any Northrop Grumman common stock.

In 2011, the required minimum funding level is expected to be approximately $2 million to the company’s retirement benefit plans and approximately $37 million to the company’s other post-retirement benefit plans.

It is not expected that any assets will be returned to the company from the benefit plans during 2011.

**Benefit Payments**

The following table reflects estimated future benefit payments, based upon the same assumptions used to measure the benefit obligation, and includes expected future employee service, as of December 31, 2010:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Pension Plans</th>
<th>Medical and Life Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Ending December 31</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>$ 116</td>
<td>$ 37</td>
</tr>
<tr>
<td>2012</td>
<td>129</td>
<td>38</td>
</tr>
<tr>
<td>2013</td>
<td>146</td>
<td>42</td>
</tr>
<tr>
<td>2014</td>
<td>162</td>
<td>46</td>
</tr>
<tr>
<td>2015</td>
<td>177</td>
<td>50</td>
</tr>
<tr>
<td>2016 through 2020</td>
<td>1,138</td>
<td>294</td>
</tr>
</tbody>
</table>

**18. STOCK COMPENSATION PLANS**

**Plan Descriptions**

The company participates in certain of Northrop Grumman’s stock-based award plans. At December 31, 2010, company employees had stock-based compensation awards outstanding under the Northrop Grumman-sponsored 2001 Long-Term Incentive Stock Plan (2001 LTISP). This plan was approved by Northrop Grumman’s shareholders. Northrop Grumman has historically issued new shares to satisfy award grants.

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The 2001 LTISP plan permit grants to key employees of three general types of stock incentive awards of Northrop Grumman’s common stock: stock options, stock appreciation rights (SARs), and stock awards. Each stock option grant is made with an exercise price at the closing price of Northrop Grumman’s stock on the date of grant (market options). Outstanding stock options granted prior to 2008 generally vest in 25 percent increments over four years from the grant date under the 2001 LTISP, and grants outstanding expire ten years after the grant date. Stock options granted in 2008 and later vest in 33 percent increments over three years from the grant date, and grants outstanding expire seven years after the grant date. No SARs have been granted under the 2001 LTISP. Stock awards, in the form of restricted performance stock rights and restricted stock rights, are granted to key employees without payment to the company.

Under the 2001 LTISP, recipients of restricted performance stock rights earn shares of Northrop Grumman’s stock, based on financial metrics determined by Northrop Grumman’s Board of Directors in accordance with the plan. For grants prior to 2007, if the objectives have not been met at the end of the applicable performance period, a substantial portion of the original grant will be forfeited. If the financial metrics are met or exceeded during the performance period, all recipients can earn up to 150 percent of the original grant. Beginning in 2007, all recipients could earn up to 200 percent of the original 2007 grant if financial metrics are exceeded. Restricted stock rights issued under either plan generally vest after three years. Termination of employment can result in forfeiture of some or all of the benefits extended.

Compensation Expense

Total stock-based compensation allocated to NGSB by Northrop Grumman for the value of such awards granted to company employees for the years ended December 31, 2010, 2009, and 2008, was $16 million, $11 million, and $13 million, respectively, of which $1 million, $1 million, and $1 million related to stock options and $15 million, $10 million, and $11 million, related to stock awards, respectively. Tax benefits recognized in the consolidated statements of operations for stock-based compensation during the years ended December 31, 2010, 2009, and 2008, were $6 million, $5 million, and $5 million, respectively. The amount of Northrop Grumman shares issued to satisfy stock-based compensation awards are recorded by Northrop Grumman and, accordingly, are not reflected in NGSB’s consolidated financial statements.

Unrecognized Compensation Expense

At December 31, 2010, there was $26 million of unrecognized compensation expense related to unvested awards granted under Northrop Grumman’s stock-based compensation plans for company employees, of which $2 million related to stock options and $24 million related to stock awards. These amounts are expected to be charged to expense over a weighted-average period of 1.3 years.

Stock Options

The fair value of each of Northrop Grumman’s stock option awards is estimated on the date of grant using a Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of Northrop Grumman’s stock option awards is expensed on a straight-line basis over the vesting period of the options, which is generally three to four years. Expected volatility is based on an average of (1) historical volatility of Northrop Grumman’s stock and (2) implied volatility from traded options on Northrop Grumman’s stock. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Northrop Grumman uses historical data to estimate future forfeitures. The expected term of awards granted is derived from historical experience under Northrop Grumman’s stock-based compensation plans and represents the period of time that awards granted are expected to be outstanding.
The significant weighted-average assumptions used by Northrop Grumman relating to the valuation of Northrop Grumman’s stock options for the years ended December 31, 2010, 2009, and 2008, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>2.9%</td>
<td>3.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Volatility rate</td>
<td>25%</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Risk-free interest</td>
<td>2.3%</td>
<td>1.7%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Expected option life (years)</td>
<td>6</td>
<td>5 &amp; 6</td>
<td>6</td>
</tr>
</tbody>
</table>

Northrop Grumman generally grants stock options exclusively to executives, and the expected term of six years is based on these employees’ historical exercise behavior. In 2009, Northrop Grumman granted options to non-executives and assigned an expected term of five years for valuing these options. Northrop Grumman and the company believe that this stratification of expected terms best represents future expected exercise behavior between the two employee groups.

The weighted-average grant date fair value of Northrop Grumman’s stock options granted during the years ended December 31, 2010, 2009, and 2008, was $11, $7, and $15, per share, respectively.

Stock option activity for the year ended December 31, 2010, was as follows:

<table>
<thead>
<tr>
<th>Shares Under Option (in thousands)</th>
<th>Weighted-Average Exercise Price</th>
<th>Weighted-Average Remaining Contractual Term</th>
<th>Aggregate Intrinsic Value ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at January 1, 2010</td>
<td>1.139</td>
<td>$ 53</td>
<td>$ 6</td>
</tr>
<tr>
<td>Granted</td>
<td>123</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Exercised</td>
<td>(91)</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>Cancelled and forfeited</td>
<td>(10)</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td>Outstanding at December 31, 2010</td>
<td>1.161</td>
<td>$ 54</td>
<td>$ 14</td>
</tr>
<tr>
<td>Vested and expected to vest in the future at December 31, 2010</td>
<td>1.148</td>
<td>$ 54</td>
<td>3.5 years</td>
</tr>
<tr>
<td>Exercisable at December 31, 2010</td>
<td>891</td>
<td>$ 54</td>
<td>2.9 years</td>
</tr>
</tbody>
</table>

The intrinsic value of options exercised during the years ended December 31, 2010, 2009, and 2008, was $2 million, zero, and $2 million, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at December 31 for the applicable year (for outstanding options), less the applicable exercise price.

Stock Awards

The fair value of stock awards is determined based on the closing market price of Northrop Grumman’s common stock on the grant date. Compensation expense for stock awards is measured at the grant date based on fair value and recognized over the vesting period. For purposes of measuring compensation expense, the amount of shares ultimately expected to vest is estimated at each reporting date based on management’s expectations regarding the relevant performance criteria.

Stock award activity for the year ended December 31, 2010, is presented in the table below. Vested awards include stock awards fully vested during the year and net adjustments to reflect the final performance measure for issued shares.
<table>
<thead>
<tr>
<th>Stock Awards</th>
<th>Weighted-Average Grant Date Fair Value</th>
<th>Weighted-Average Remaining Contractual Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at December 31, 2009</td>
<td>436</td>
<td>$58</td>
</tr>
<tr>
<td>Granted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vested</td>
<td>(142)</td>
<td>82</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(11)</td>
<td>52</td>
</tr>
<tr>
<td>Outstanding at December 31, 2010</td>
<td>555</td>
<td>$53</td>
</tr>
</tbody>
</table>

During the year ended December 31, 2010, 136,000 shares of Northrop Grumman’s common stock were issued to company employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $8 million and a grant date fair value of $10 million. During the year ended December 31, 2009, 284,000 shares of Northrop Grumman’s common stock were issued to company employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $13 million and a grant date fair value of $19 million. During the year ended December 31, 2008 348,000 shares were issued to company employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $19 million and a grant date fair value of $28 million. The differences between the fair values at issuance and the grant date fair values reflect the effects of the performance adjustments and changes in the fair market value of the company’s common stock.

In 2011, Northrop Grumman expects, upon approval of the Compensation Committee of the Board of Directors, to issue to company employees an additional 142,000 shares of common stock that vested as of December 31 2010, with a grant date fair value of $11 million.

19. RELATED PARTY TRANSACTIONS AND PARENT COMPANY EQUITY

Allocation of General Corporate Expenses

The consolidated financial statements reflect an allocation of general corporate expenses from Northrop Grumman, including allowable and unallowable costs as defined by the FAR. The allowable portion of these costs have historically been allocated to NGSB’s contracts, unless prohibited by the FAR. These costs generally fall into one of the following categories:

**Northrop Grumman management and support services**—This category includes costs for functions such as human resources, treasury, insurance risk management, internal audit, finance, tax, legal, executive office and other administrative support. Human resources, employee benefits administration, treasury and insurance risk management are generally allocated to the company based on relative gross payroll dollars; internal audit is generally allocated based on audit hours incurred related to the company; and the remaining costs are generally allocated using a three-factor-formula that considers the company’s relative amounts of revenues, payroll and average asset balances as compared to the total value of these factors for all Northrop Grumman entities utilizing these support services (the Three Factor Formula). The consolidated financial statements include Northrop Grumman management and support services allocations totaling $115 million, $82 million, and $95 million for the years ended December 31, 2010, 2009, and 2008, respectively.

**Shared services and infrastructure costs**—This category includes costs for functions such as information technology support, systems maintenance, telecommunications, procurement and other shared services. These costs are generally allocated to the company using the Three Factor Formula or based on usage. The consolidated statement of operations reflects shared services and infrastructure costs allocations totaling $325 million, $325 million and $323 million for the years ended December 31, 2010, 2009 and 2008, respectively.

**Northrop Grumman-provided benefits**—This category includes costs for group medical, dental and vision insurance, 401(k) savings plan, pension and postretirement benefits, incentive compensation and other benefits.

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These costs are generally allocated to the company based on specific identification of the benefits provided to company employees participating in these benefit plans. The consolidated financial statements include Northrop Grumman-provided benefits allocations totaling $725 million, $680 million and $637 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Management believes that the methods of allocating these costs are reasonable, consistent with past practices, and in conformity with cost allocation requirements of CAS or the FAR.

Related Party Sales and Cost of Sales

NGSB purchases and sells products and services from other Northrop Grumman businesses. Purchases of products and services from these affiliated entities, which were recorded at cost, were $97 million, $100 million, and $73 million in 2010, 2009, and 2008, respectively. Sales of products and services to these entities were $8 million, $9 million, and $8 million in 2010, 2009, and 2008, respectively. No intercompany trade receivables or payables were outstanding as of the years ended December 31, 2010, and 2009.

Notes Payable to Parent

The company had $715 million and $537 million of promissory notes outstanding with Northrop Grumman as of December 31, 2010 and 2009, respectively. These notes were issued in conjunction with Northrop Grumman’s purchase of Newport News Shipbuilding in 2001 and the tender and purchase of $178 million of the GO Zone IRBs in November 2010 discussed in Note 11. These notes are payable on demand and include $537 million of principal with an annual interest rate of 5% and $178 million of principal with an annual interest rate of 4.55%. None of the notes require periodic payments. Accrued and unpaid interest totaled $239 million and $212 million for the years ended December 31, 2010, and 2009, respectively. Intercompany interest expense of $27 million for each of the years ended December 31, 2010, 2009, and 2008 is included in interest expense in the consolidated statements of operations.

Parent’s Equity in Unit

Intercompany transactions between NGSB and Northrop Grumman have been included in these consolidated financial statements and are considered to be effectively settled for cash at the time the transaction is recorded. The net effect of the settlement of these transactions is reflected as parent’s equity in unit in the consolidated statements of financial position.

20. UNAUDITED SELECTED QUARTERLY DATA

Unaudited quarterly financial results are set forth in the following tables.

<table>
<thead>
<tr>
<th>2010</th>
<th>1st Qtr</th>
<th>2nd Qtr</th>
<th>3rd Qtr</th>
<th>4th Qtr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$1,712</td>
<td>$1,610</td>
<td>$1,665</td>
<td>$1,736</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>87</td>
<td>(20)</td>
<td>77</td>
<td>104</td>
</tr>
<tr>
<td>Earnings (loss) before income taxes</td>
<td>77</td>
<td>(30)</td>
<td>67</td>
<td>92</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>41</td>
<td>(11)</td>
<td>42</td>
<td>63</td>
</tr>
</tbody>
</table>

In the second quarter of 2010, Northrop Grumman announced plans to consolidate NGSB’s Gulf Coast operations by winding down its operations at the Avondale, Louisiana facility in 2013 after completing LPD-class ships currently under construction. As a result of this decision, the company recognized a $113 million pre-tax charge to operating income for the contracts under construction at Avondale.
In the third quarter of 2010, NGSB determined that costs to complete post-delivery work on LHD 8 exceeded original estimates resulting in a charge of $30 million. Also in the third quarter, the company realized $24 million in unfavorable performance adjustments on LPD-24 *Arlington*, which was more than offset by $31 million in milestone incentives on the total LPD-22 through LPD-25 contract.

### 2009

<table>
<thead>
<tr>
<th></th>
<th>1st Qtr</th>
<th>2nd Qtr</th>
<th>3rd Qtr</th>
<th>4th Qtr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$1,410</td>
<td>$1,544</td>
<td>$1,656</td>
<td>$1,682</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>68</td>
<td>(4)</td>
<td>82</td>
<td>65</td>
</tr>
<tr>
<td>Earnings (loss) before income taxes</td>
<td>57</td>
<td>(15)</td>
<td>71</td>
<td>63</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>39</td>
<td>(10)</td>
<td>52</td>
<td>43</td>
</tr>
</tbody>
</table>

In the first quarter of 2009, the company recognized a $48 million favorable adjustment on the LHD 8 contract due to risk retirement for earlier than expected completion of U.S. Navy acceptance sea trials and increased escalation recovery. This increase was more than offset by lower performance of $38 million each on the DDG 51 program and LPD 22 due to cost growth.

In the second quarter of 2009, the company recognized a $105 million pre-tax charge for cost growth on LPD-class ships and LHA 6. These adjustments reflected additional expense to improve design, engineering, production, and quality processes as well as increased production cost estimates for these ships.
HUNTINGTON INGALLS INDUSTRIES, INC. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Northrop Grumman Corporation
Los Angeles, California

We have audited the accompanying statement of financial position of Huntington Ingalls Industries, Inc. (the “Company”), a wholly owned subsidiary of Northrop Grumman Corporation, as of December 31, 2010. This financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial position is free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial position, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial position presentation. We believe that our audit of the statement of financial position provides a reasonable basis for our opinion.

In our opinion, such statement of financial position presents fairly, in all material respects, the financial position of Huntington Ingalls Industries, Inc. as of December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Virginia Beach, Virginia
February 21, 2011
HUNTINGTON INGALLS INDUSTRIES, INC.

STATEMENT OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>in whole dollars</th>
<th>December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$100</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$100</td>
</tr>
<tr>
<td><strong>Shareholder’s Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Common stock, $1 par value; 100 shares authorized, issued and outstanding at December 31, 2010</td>
<td>$100</td>
</tr>
<tr>
<td><strong>Total shareholder’s equity</strong></td>
<td>$100</td>
</tr>
</tbody>
</table>

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HUNTINGTON INGALLS INDUSTRIES, INC.

NOTE TO STATEMENT OF FINANCIAL POSITION

On July 13, 2010, Northrop Grumman Corporation (Northrop Grumman) announced its decision to explore strategic alternatives for its shipbuilding business, including but not limited to, a spin-off to its shareholders to create a separate public company. On August 4, 2010, Northrop Grumman formed a new, wholly-owned subsidiary, New S HoldCo, Inc., to serve as the holding company for its shipbuilding business. The company was initially capitalized for $100 and issued 100 shares of its common stock, at $1 par value per share, to New P, Inc, a subsidiary of Northrop Grumman and sole shareholder of the company. Effective September 29, 2010, New S HoldCo, Inc. changed its name to New Ships, Inc. Effective November 23, 2010 New Ships, Inc. changed its name to Huntington Ingalls Industries, Inc. (the company).

In anticipation of a spin-off, Northrop Grumman and the company are planning to enter into a separation and distribution agreement under which Northrop Grumman will transfer various assets, liabilities and obligations (including employee benefits, intellectual property, information technology, insurance and tax-rated assets and liabilities) associated with the shipbuilding business. The assets and liabilities transferred to the company will be recorded at historical cost as a reorganization of entities under common control. Northrop Grumman is not planning to have any ownership interest in the company subsequent to the spin-off.

Management expects that the shares of the company will be distributed to Northrop Grumman shareholders in the form of a tax-free distribution to Northrop Grumman shareholders for U.S. Federal income tax purposes. The distribution will result in the company operating as a separate entity with publicly traded common stock.

Statements of operations and cash flows have not been presented as there has been no activity since formation.