Huntington Ingalls Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)
4101 Washington Avenue
Newport News, Virginia
(Address of Principal Executive Offices)

90-0607005
(I.R.S. Employer Identification No.)
23607
(Zip Code)

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

Common stock, par value $1.00 per share

The New York Stock Exchange, Inc.

None.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

Large accelerated filer □ Accelerated filer □ Non-accelerated filer □ Smaller reporting company □
(Do not check if a smaller reporting company)
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The information required by this item is contained under the sections “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and “Certain Relationships and Related Party Transactions” of the Information Statement. Those sections are incorporated herein by reference.

Item 1A. Risk Factors
The information required by this item is contained under the section “Risk Factors” of the Information Statement. That section is incorporated herein by reference.

Item 2. Financial Information
The information required by this item is contained under the sections “Summary,” “Description of Capital Stock,” “Selected Historical Consolidated Financial and Other Data,” “Unaudited Pro Forma Condensed Consolidated Financial Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the Information Statement. Those sections are incorporated herein by reference.

Item 3. Properties
The information required by this item is contained under the section “Business—Properties” of the Information Statement. That section is incorporated herein by reference.

Item 4. Security Ownership of Certain Beneficial Owners and Management
The information required by this item is contained under the section “Security Ownership of Beneficial Owners and Management” of the Information Statement. That section is incorporated herein by reference.

Item 5. Directors and Executive Officers
The information required by this item is contained under the section “Management” of the Information Statement. That section is incorporated herein by reference.

Item 6. Executive Compensation
The information required by this item is contained under the section “Executive Compensation” of the Information Statement. That section is incorporated herein by reference.

Item 7. Certain Relationships and Related Transactions, and Director Independence
The information required by this item is contained under the sections “Management,” “Executive Compensation” and “Certain Relationships and Related Party Transactions” of the Information Statement. Those sections are incorporated herein by reference.

Item 8. Legal Proceedings
The information required by this item is contained under the section “Business—Legal Proceedings” of the Information Statement. That section is incorporated herein by reference.

Item 9. Market Price of and Dividends on the Registrant’s Common Equity and Related Stockholder Matters
The information required by this item is contained under the sections “Risk Factors,” “The Spin-Off,” “Dividends,” “Executive Compensation” and “Description of Capital Stock” of the Information Statement. Those sections are incorporated herein by reference.

Item 10. Recent Sales of Unregistered Securities
None.
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Item 11. Description of Registrant’s Securities to be Registered

The information required by this item is contained under the section “Description of Capital Stock” of the Information Statement. That section is incorporated herein by reference.

Item 12. Indemnification of Directors and Officers

The information required by this item is contained under the section “Description of Capital Stock—Liability and Indemnification of Directors and Officers” of the Information Statement. That section is incorporated herein by reference.

Item 13. Financial Statements and Supplementary Data

The information required by this item is contained under the sections “Description of Capital Stock,” “Selected Historical Consolidated Financial and Other Data,” “Unaudited Pro Forma Condensed Consolidated Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Index to Financial Statements” of the Information Statement. Those sections are incorporated herein by reference.

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 15. Financial Statements and Exhibits

(a) Financial Statements

The information required by this item is contained under the section “Index to Financial Statements” beginning on page F-1 of the Information Statement. That section is incorporated herein by reference.

(b) Exhibits

The following documents are filed as exhibits hereto:

<table>
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<th>Exhibit No.</th>
<th>Description</th>
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<tr>
<td>3.1</td>
<td>Form of Restated Certificate of Incorporation of Huntington Ingalls Industries, Inc.*</td>
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<td>3.2</td>
<td>Form of Restated Bylaws of Huntington Ingalls Industries, Inc.*</td>
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<tr>
<td>4.1</td>
<td>Form of certificate representing shares of common stock, par value $1.00 per share, of Huntington Ingalls Industries, Inc.*</td>
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<td>Form of Employee Matters Agreement among Northrop Grumman Corporation, New P, Inc. and Huntington Ingalls Industries, Inc.</td>
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<tr>
<td>10.3</td>
<td>Form of Intellectual Property License Agreement between Northrop Grumman Systems Corporation and Northrop Grumman Shipbuilding, Inc.</td>
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<td>Form of Tax Matters Agreement between New P, Inc. and Huntington Ingalls Industries, Inc.</td>
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<td>Form of Transition Services Agreement between New P, Inc. and Huntington Ingalls Industries, Inc.</td>
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<td>Loan Agreement dated as of May 1, 1999 between Ingalls Shipbuilding, Inc. and the Mississippi Business Finance Corporation relating to the Economic Revenue Development Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A due 2024.†</td>
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<tr>
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<td>Indenture of Trust dated as of May 1, 1999 between the Mississippi Business Finance Corporation and the First National Bank of Chicago, as Trustee, relating to the Economic Revenue Development Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A due 2024.†</td>
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<td>Exhibit No.</td>
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<tr>
<td>10.10</td>
<td>Guaranty Agreement dated as of May 1, 1999 between Litton Industries, Inc. and The First National Bank of Chicago, as Trustee. ††</td>
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<td>Assumption of Guaranty of Litton Industries, Inc. dated as of January 1, 2003 by Northrop Grumman Systems Corporation. ††</td>
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<td>Performance and Indemnity Agreement dated as of _<strong>, 20</strong> between Huntington Ingalls Industries, Inc. and Northrop Grumman Corporation.</td>
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<td>10.14</td>
<td>Performance and Indemnity Agreement dated as of _<strong>, 20</strong> between Huntington Ingalls Industries, Inc. and Northrop Grumman Corporation.</td>
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* To be filed by amendment.
† Previously filed on November 24, 2010.
†† Previously filed on December 21, 2010.
SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: /s/ C. Michael Petters

President and Chief Executive Officer

Date: January 18, 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 [__________]
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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 $1.00 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:

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 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, 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 decrees, that relate, in whole or in part, to Hazardous Substances, pollution, contaminants, harmful substances, protection of the environment or human health, including those that regulate the use, manufacture, generation, handling, labeling, testing, transport, treatment, storage, processing, discharge, disposal, release, threatened release, control, or cleanup of harmful substances, pollutants, contaminants, Hazardous Substances or materials containing such substances, regardless of when enacted or effective.

“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.

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“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, NGSB 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.

“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), 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.

“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(e)(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)(6), 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 Applicable New NGC Proportion of any Shared Gain and 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)(7), but excluding those businesses set forth on Schedule 1.1(a)(8);
(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)(9);
   (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.

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)(10), other than any claim or right described on Schedule 1.1(a)(11), 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 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)(12).
Notwithstanding anything to the contrary in this definition of “Shared Liability,” Shared Liabilities shall not include 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)(13), 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 exclusively by employees of the Shipbuilding Business (other than any of the foregoing that were developed specifically for the Retained Business) or by 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

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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.

“That 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)(8), but excluding those businesses set forth on Schedule 1.1(a)(7);

(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 (each as defined in the Employee Matters Agreement) 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.”

“That Shipbuilding Liabilities” means:

(a) all of the following Liabilities:

(i) the Liabilities listed or described on Schedule 1.1(a)(14);

(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)(15)), 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)(15)), 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, between New NGC and HII, as may be amended or modified from time to time.

“Taxes” 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)(16).

“Transition Services Agreement” means the Transition Services Agreement, dated as of the date hereof, between 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 that are not already owned, leased, licensed or otherwise held by any member of the HII Group 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.
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.
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, 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, 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 HII Entity shall, without the payment of any further consideration, assume such rights, obligations and other Liabilities.
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, 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 certain Credit Support Instruments identified on Schedule 2.8(a) relating exclusively to the Retained Business and provided by or through NGC or any other member of the HII Group.

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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.

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(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 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 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 NGC 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 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
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
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, 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 and Assigned Actions, as defined in the Litigation Management Agreement) 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 on such Schedule, and, with respect to specified Shared Actions under the Litigation Management Agreement, the Managing Party shall be as set forth therein. 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) as to the nature or status of any such Shared Liabilities or Shared Gains or (iii) as to 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 Non-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.

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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.

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 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), 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 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 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, promptly after the request of the receiving party, either return to the disclosing party all Information in a tangible form (including all copies thereof and all notes, extracts or summaries based thereon) or certify to the disclosing party that it has destroyed such Information (and such copies thereof and such notes, extracts or summaries based thereon).

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 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 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 to 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, 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 solicitations described on Schedule 8.4(a) (the “Solicitations”) 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 Solicitations.

(b) After the Distribution, New NGC shall cause NGTS to in good faith (i) endeavor to modify the Teaming Agreement to provide 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 Solicitations.

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, letter subcontracts for the performance of follow-on work to be performed for the 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 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.

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

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obtains its own such 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.

(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, 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 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 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
(d) **Reimbursement of New NGC 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) above 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 parties’ indirect cost proposals, the Cost Accounting Standards (CAS) and defective pricing. New NGC and HII will each be responsible for all of their 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 shall provide HII with updates of pre-Distribution cost and pricing data relevant to HII, including (i) revisions and updates to cost proposals of the New NGC Group and (ii) revisions and updates to pre-Distribution “DCE Billing and Bidding Guidance,” consistent with practices of NGC 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 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 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 the 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 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 of 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 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. 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 case may be, if the subject of the Agreement Disputes thereunder arise out of or relate essentially to the same set of facts or transactions. Such consolidated arbitration shall be determined by the arbitrators appointed for the arbitration proceeding that was commenced first in time.

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;

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(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 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: _______________

and:

Northrop Grumman Corporation
1840 Century Park East
Los Angeles, CA 90067-2199
Attention: Treasurer
Facsimile: _______________
(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: _______________

and:

Northrop Grumman Corporation  
2980 Fairview Park Drive  
Falls Church, VA 22042  
Attention: Treasurer  
Facsimile: _______________

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

Huntington Ingalls Industries, Inc.  
4101 Washington Avenue  
Newport News, VA 23607  
Attention: _______________  
Facsimile: _______________

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

Huntington Ingalls Industries, Inc.  
4101 Washington Avenue  
Newport News, VA 23607  
Attention: General Counsel  
Facsimile: _______________

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. 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:  
Name:  
Title:  

NEW P, INC.

By:  
Name:  
Title:  

HUNTINGTON INGALLS INDUSTRIES, INC.

By:  
Name:  
Title:  

[Signature Page to Separation and Distribution Agreement]
NORTHROP GRUMMAN SHIPBUILDING, INC.

By:  

Name:  

Title:  

NORTHROP GRUMMAN SYSTEMS CORPORATION

By:  

Name:  

Title:  

[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 limited partner interest in Holdings LP. Holdings LLC will initially own the sole general partner interest in Holdings LP. Holdings LP will initially own all of the stock of Merger Sub.

Step 2: 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 other 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, and HII (or one or more other members of the HII Group) will assume all of the Shipbuilding Liabilities of NGC.

Step 3: 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 4: The parties will consummate the Holding Company Reorganization.

Step 5: New NGC will contribute its membership interest in Holdings LLC and its partnership interest in Holdings LP to HII.

Step 6: 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 except NGC’s obligations under the Navy Guarantees and the GO-Zone Bonds (the “GO-Zone Bonds Guarantee”).

Step 7: Concurrent with the NGC Distribution, HII will enter into the P&I Agreements pursuant to which it will assume all of NGC’s obligations under the Navy Guarantees and the GO-Zone Bonds Guarantee, if applicable.

I-1
Step 8: Holdings LP will distribute to Holdings LLC, its general partner, and HII, its limited partner, all of the stock of NGSB and NGC (the “Holdings LP Distribution”).

Step 9: Holdings LLC will distribute to HII the shares of NGC and NGSB that it received in the Holdings LP Distribution.

Step 10: HII will receive the net cash proceeds from the HII Debt. $[______] 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 11: 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 $[_____]) and (b) to Holdings LP the remaining amount of the Transferred Debt Proceeds (approximately $[____]).

Step 12: 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 11, the “HII Contribution”).

Step 13: HII will distribute all of its membership interest in Holdings LLC and all of its general 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 [__________]
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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, (i) 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 (ii) 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 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 (a). 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

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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. For the avoidance of doubt, if such litigation relates solely to matters occurring after the Distribution with respect to a Benefit Plan or an Employment Agreement: (a) if such Benefit Plan or Employment Agreement is an HII Benefit Plan or an HII Employment Agreement, the HII Group shall be solely responsible for such litigation and any liabilities with respect thereto, and (b) if such Benefit Plan or Employment is a New NGC Benefit Plan or a New NGC Employment Agreement, the New NGC Group shall be solely responsible for such litigation and any liabilities with respect thereto.

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.

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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, and shall provide benefits to, those HII Employees and HII Retirees and their respective Plan Payees who immediately prior to the Distribution were participating in, or entitled to present or future benefits under the corresponding Split Welfare Plan. 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 Welfare Plans, whether accrued before, on or after the Distribution. For avoidance of doubt, the HII Spinoff Welfare Plans shall have the sole obligation to provide benefits attributable to any lost participants who were formerly employed in the Shipbuilding Business.

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 to 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

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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). As of the Distribution, 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 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, 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 in 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 in 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 in Schedule 5.2(d)) with respect to the payment of the True-Up Amount.

(e) 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
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...
(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 as determined by the appropriate fiduciary of the HII Split DC Plans.
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 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.

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, for each such HII Spinoff Nonqualified Plan, (i) the total assets held by the applicable New NGC Grantor Trust multiplied by (ii) a fraction, (A) the numerator of which is the total value of accrued benefits allocated to such HII Spinoff Nonqualified Plan under such New NGC Grantor Trust, and (B) the denominator of which is the total value of all accrued benefits under all plans for which such New NGC Grantor Trust is intended to pay all or a portion of the benefits. For purposes of this Section 7.2(b), the value of accrued benefits shall be determined by the actuary selected by the New NGC Group.

(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 with respect to each HII Spinoff Nonqualified Plans 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 in 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 Spin-off 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 Spin-off 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 as determined by the appropriate party with investment authority for such HII Spinoff Nonqualified Plan.

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 $1.00 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.

Section 8.3 Tax Deductions. The rights of the members of the New NGC Group and the members of the HII Group to take deductions for New NGC Equity Compensation Awards and the Converted HII Equity Compensation Awards shall be determined in accordance with Section 8.2 of the Tax Matters Agreement.

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: 
Name: 
Title: 

NEW P, INC.

By: 
Name: 
Title: 

HUNTINGTON INGALLS INDUSTRIES, INC.

By: 
Name: 
Title: 

[Signature Page to Employee Matters Agreement]
INSURANCE MATTERS AGREEMENT
among
NORTHROP GRUMMAN CORPORATION,
NEW P, INC.,
and
HUNTINGTON INGALLS INDUSTRIES, INC.
Dated as of [______]
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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 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 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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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 benefiting 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.
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.
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.
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: ________________________________
   Name: ____________________________
   Title: ____________________________

NEW P, INC.
By: ________________________________
   Name: ____________________________
   Title: ____________________________

HUNTINGTON INGALLS INDUSTRIES, INC.
By: ________________________________
   Name: ____________________________
   Title: ____________________________

[Signature Page to Insurance Matters Agreement]
INTELLECTUAL PROPERTY LICENSE AGREEMENT

between

NORTHROP GRUMMAN SYSTEMS CORPORATION

and

NORTHROP GRUMMAN SHIPBUILDING, INC.

Dated as of [________]
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INTELLECTUAL PROPERTY LICENSE AGREEMENT

INTELLECTUAL PROPERTY LICENSE AGREEMENT, dated as of [___________] (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 and will be renamed “Huntington Ingalls Industries Company.”

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, NGSC and its Subsidiaries shall not be deemed to be an Affiliate of NGSB and NGSB and its Subsidiaries shall not be deemed to be an Affiliate of NGSC. 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.

“Field of Use” means, as to any 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. 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.
“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 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, 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.

“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, in the case of the Licensed Intellectual Property that is described in Schedule A, the applicable period specified therein or, in the case of all other Licensed Intellectual Property, 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. 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, sub-contractors 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. Accordingly, 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. 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 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.

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 interpartes, 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.

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) The confidentiality obligations contained in Section 4.2(a) 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 published patent applications), the confidentiality obligations of the Receiving Party with respect to the rest of the Proprietary Information shall remain intact without modification.
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 Indemnitee 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 or 2.3 with respect to its use of any Licensed Intellectual Property licensed to it hereunder, or materially breaches any confidentiality obligations set forth in Article IV with respect to its use of any Licensed 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 Licensed 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 Licensed Intellectual
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 freely 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.

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: __________________________

(ii) if to NGSC after the date on which New NGC relocates its corporate headquarters, to:

c/o Northrop Grumman Corporation
4101 Washington Avenue
Newport News, VA 23607
Attention: General Counsel
Facsimile: __________________________

(iii) if to NGSB, to:

c/o Huntington Ingalls Industries, Inc.
4101 Washington Avenue
Newport News, VA 23607
Attention: __________________________
Facsimile: __________________________

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. All Exhibits annexed hereto or referred to herein are hereby incorporated in and made a part
of this License Agreement as if set forth herein. 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
total 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.

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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: ________________________________
    Name: ____________________________
    Title: ____________________________

NORTHROP GRUMMAN SHIPBUILDING, INC.

By: ________________________________
    Name: ____________________________
    Title: ____________________________

[Signature Page to Intellectual Property License Agreement]
TAX MATTERS AGREEMENT

by and between

NEW P, INC.
(to be renamed NORTHROP GRUMMAN CORPORATION)

and

HUNTINGTON INGALLS INDUSTRIES, INC.

Dated as of __________, 2011
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TAX MATTERS AGREEMENT

THIS TAX MATTERS AGREEMENT, dated as of [______], 2011 (this “Agreement”), is made by and between NEW P, INC., a Delaware corporation ("New NGC") and HUNTINGTON INGALLS INDUSTRIES, INC., a Delaware corporation ("HII"). Each of New NGC and HII is sometimes referred to herein as a “Party” and, collectively, as the “Parties.”

RECITALS

A. Northrop Grumman Corporation ("NGC"), a Delaware corporation, 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. NGC and the Parties have entered into the Separation and Distribution Agreement, dated as of [______], 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. NGC and 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 a consolidated U.S. federal income tax return (the “Current Tax Group”).

G. Following the Distribution, HII will be the common parent of an affiliated group of corporations that files a consolidated U.S. federal income tax return (the “HII Tax Group”).

H. Following the Distribution, the Current Tax Group will remain in existence with New NGC as its common parent and with all of its previous members other than the HII Group Members.

I. 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.
J. 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 certain covenants, undertakings, agreements, representations, warranties, and indemnities relating to the Tax-Free Status of the Transactions, 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.

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


“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.

“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 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 Return” means a Tax Return filed or required to be filed by an HII Group Member after the Distribution Date (for the 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 either 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 entered into between NGC (as parent of the Current Tax Group) and the IRS in connection with the IRS Ruling and with the Transactions.

“IRS Ruling” means the U.S. federal income tax private letter ruling, and any supplement thereto, issued to NGC by the IRS in connection with the Transactions.

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

“Member” means HII Group Member or 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.
“Opinion” means the opinion of Tax Counsel with respect to certain Tax aspects of the Transactions.

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

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

“Post-Distribution Taxable Period” means any Taxable Period (or portion thereof) beginning after 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 Liability” 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 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.

“Tax Sharing Dispute” means a dispute arising in connection with this Agreement between the Parties (not including a Tax Proceeding, except as provided in Section 5.1).

“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 such regulations may be amended from time to time.

“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 prepare and file all Current Tax Group Federal Consolidated Returns required to be filed after the Distribution Date. New NGC shall pay all Taxes shown payable on all Current Tax Group Federal Consolidated Returns filed or required to be filed after the Distribution Date.

Section 2.2 New NGC Non-Federal Tax Returns.

New NGC shall prepare and file, or cause the relevant New NGC Group Member to prepare and file, all New NGC Non-Federal Tax Returns. New NGC shall pay or cause such New NGC Group Member to pay to the appropriate Tax Authority all Taxes shown as payable on all New NGC Non-Federal Tax Returns.
Section 2.3 HII Tax Returns

HII shall prepare and file, or cause 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 Tax Return Procedures

(a) In connection with the preparation of any Current Tax Group Federal Consolidated Return to be filed pursuant to Section 2.1 or any New NGC Non-Federal Tax Return filed pursuant to Section 2.2, HII shall, at its own cost and expense, provide pro forma Tax Returns or equivalent financial data for HII and any relevant HII Group Member to be used in the preparation of such Tax Returns, 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) On behalf of itself and each HII Group Member, HII hereby designates New NGC as their agent to take any and all actions necessary or incidental to the preparation and filing by New NGC of all New NGC Non-Federal Tax Returns and Current Tax Group Federal Consolidated Returns (subject to the IRS Closing Agreement).

(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, each Party shall bear its own expenses incurred in connection with this ARTICLE 2.

Section 2.5 Adjustment Requests

(a) New NGC Adjustment Requests. New NGC shall, in its sole discretion, be permitted 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 an Adjustment Request relating to any HII Tax Return.

ARTICLE 3
GENERAL INDEMNIFICATION FOR TAXES

Section 3.1 Indemnification by New NGC

New NGC shall pay, 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 are separate from New NGC’s obligations to HII pursuant to Section 6.2, Section 7.6, and Section 8.4(b); 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 7.6, or Section 8.4(a).

Section 3.2 Indemnification by HII.
HII shall pay, 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 Tax Period; provided, however, that HII’s obligations pursuant to this Section 3.2 are separate from HII’s obligations to New NGC pursuant to Section 6.1, Section 7.6, and Section 8.4(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 7.6, or Section 8.4(b).

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 7.6, or Section 8.4(b) and shall not affect HII’s obligations to New NGC pursuant to Section 6.1, Section 7.6, 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 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 7.6, or Section 8.4(a) and shall not affect New NGC’s obligations to HII pursuant to Section 6.2, Section 7.6, 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 New NGC.

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).

(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), and (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). 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 to the procedures for determining the final amount or portion of any Refund resulting from the carryback of such loss, credit, or other Tax Attribute that shall be paid to HII pursuant to this Section 4.2(b)(iii). 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) On behalf of itself and each HII Group Member, HII hereby designates New NGC as their agent to take any and all actions necessary or incidental 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) If a settlement of a Tax Proceeding within the control of New NGC (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 7.6, or Section 8.4(a), or could be expected to give rise to a payment to HII pursuant to Section 6.2, Section 7.6, or Section 8.4(b), then New NGC shall 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 Section 6.1, Section 7.6, or Section 8.4(a), except to the extent HII is actually prejudiced by such failure.

(iv) New NGC shall 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 7.6, or Section 8.4(a), or a payment to HII pursuant to Section 6.2,
Section 7.6, 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 7.6, or Section 8.4(a) or the amount of its payment from New NGC pursuant to Section 6.2, Section 7.6, 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 liability to New NGC pursuant to Section 6.1, Section 7.6, or Section 8.4(a) or the amount of its payment from New NGC pursuant to Section 6.2, Section 7.6, 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 such contest by HII shall be conducted as a Tax Sharing Dispute under the procedures set forth in Section 10.2. 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 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 between New NGC and the Tax Authority.

(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.**

Within 10 days after one Party (the “first Party”) becomes aware of the commencement of a Tax Proceeding that may give rise to Taxes for which the other Party (the “second Party”) is responsible pursuant to ARTICLE 3 or which may give rise to a payment obligation under ARTICLE 6, Section 7.6, or Section 8.4, the first Party shall notify the second Party of such Tax Proceeding, and thereafter shall promptly forward or make available to the second Party copies of notices and communications relating to such Tax Proceeding. A failure by the first Party to notify the second Party of the commencement of any such Tax Proceeding within such 10-day period or promptly forward any further notices or communications shall not relieve the second Party of any obligation which it may have pursuant to this Agreement except to the extent that the second Party is actually prejudiced by such failure.

**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 required to file such Tax Return pursuant to ARTICLE 2.
ARTICLE 6
PAYMENTS BETWEEN THE PARTIES FOR CERTAIN INCOME TAX ADJUSTMENTS

Section 6.1 Payments by HII to New NGC:

(a) General. Except as otherwise provided in Section 7.6 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(d) and Section 6.3).

(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 on a Current Tax Group Federal Consolidated Return for a Pre-Distribution Taxable Period or a Straddle 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 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.

(c) 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”).

(d) Limitation on Payment Obligation. An Income Tax Adjustment resulting in an increase in taxable income of an HII Group Member 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 or 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, Income Tax Adjustments relating to non-depreciable, non-amortizable assets, or otherwise) shall not be taken into account. This Section 6.1(d) shall not apply to any payment due under Section 7.6 or Section 8.4.
Section 6.2 Payments by New NGC to HII

(a) General. Except as otherwise provided in Section 7.6 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 or a Straddle 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(d) and Section 6.3).

(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 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)) 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) 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”).

(d) Limitation on Payment Obligations. An Income Tax Adjustment resulting in a decrease in taxable income of an HII Group Member 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 or Straddle Taxable Period (to the extent attributable to the portion of such Straddle 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 (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 incurrence by the HII Group or such Member of any Tax detriment attributable thereto shall not be taken into account. This Section 6.2(d) shall not apply to any payment due under Section 7.6 or Section 8.4.

Section 6.3 Threshold Amount.

(a) Neither Party shall have an obligation to make a payment under Section 6.1(a) and 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 $2,000,000 (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) Once 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 this Section 6.3), the amount of the subsequent payment due between the Parties shall be adjusted to effectuate the aggregate nature of the Parties’ payment obligations under this Section 6.1(a) and Section 6.2(a), including the Threshold Amount in this Section 6.3.

(d) This Section 6.3 shall not apply to any payment due under Section 7.6 or Section 8.4.

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) intercompany transactions between members of the Current Tax Group shall be taken into account without regard to Treasury Regulation Section 1.1502-13 or any similar rule;

(iii) no net operating loss, net capital loss, or other loss carryover or carryback deduction shall be taken into account; and

(iv) 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 7.6 or Section 8.4.

Section 6.5 Acknowledgement

The Parties 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).

(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, the Parties 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 Regulation Section 1.1502-76(b)(1)(ii)(B) or any similar or analogous provision of state, local or foreign Law. New NGC shall not make a ratable allocation election pursuant to Treasury Regulation 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 Party covenants and agrees that it will, and will cause each of its respective Subsidiaries to, treat (a) a payment by HII to New NGC under Section 6.1, Section 7.6, or Section 8.4 as a distribution by HII to New NGC immediately prior to the Distribution; (b) a payment by New NGC under Section 6.2, Section 7.6, or Section 8.4 as a contribution by New NGC to HII immediately prior to the Distribution; and (c) a payment by either Party of interest under Section 10.1 as taxable or deductible, as the case may be, to the Party entitled to retain such payment or required pursuant to this Agreement to make such payment, in either case except as otherwise required by applicable Law.
(b) Payments Pursuant to Separation and Distribution Agreement and Ancillary Agreements.

(i) In General. Each Party covenants and agrees that it will, and will cause each of its respective Subsidiaries to, treat an indemnity payment to the other Party 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 Tax Treatment of Equity-Related Compensation.

(a) The Current Tax Group or a New NGC Group Member shall be entitled to claim any Tax deduction relating to (i) the exercise of an option award to purchase New NGC stock, (ii) the vesting of a restricted performance stock right award or restricted stock right award with respect to New NGC stock, and (iii) the payment of a cash performance unit award with respect to New NGC stock, in each case held by an employee or former employee of a New NGC Group Member at the time of such exercise, vesting, or payment.

(b) HII or an HII Group Member shall be entitled to claim any Tax deduction relating to (i) the exercise of an option award to purchase HII stock, (ii) the vesting of a restricted performance stock right award or restricted stock right award with respect to HII stock, and (iii) the payment of a cash performance unit award with respect to HII stock, in each case held by an employee or former employee of an HII Group Member at the time of such exercise, vesting, or payment.
Section 7.5 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 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 Regulation 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 either Party under ARTICLE 6,
notwithstanding the fact that some period of contract performance covered by the look-back calculation occurred during a Pre-Distribution Taxable Period or a Straddle Taxable Period.

(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 either 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 either 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 7.6 Indemnification for Taking Contrary Tax Treatment

(a) If either Party 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) For the purposes of this Section 7.6, any increase in Taxes shall be determined in accordance with the methodology set forth in Section 6.1(b) and Section 6.1(c), on the one hand, or Section 6.2(b) and Section 6.2(c), on the other; provided, however, that the limitations under Section 6.1(d), Section 6.2(d), and Section 6.3 shall not apply to the indemnities under this Section 7.6, it being the intention of the parties that any indemnity under this Section 7.6 shall be determined without any minimum amount and without regard to the presence or absence of any possible future Tax benefit or Tax detriment to any member of the HII Group or any member of the New NGC Group.

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Section 7.7 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 7.7(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 (A) that 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; and (B) that 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 combination) will be true, correct, fairly presented and complete in all respects, and not misleading in any respect, through and including the Distribution Date and thereafter as relevant.

(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 (A) that it has delivered complete and accurate copies of the Tax Materials to HII, (B) that 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, and (C) that 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 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 take, 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 gross assets of HII or the consolidated gross assets of the HII Group. The percentage of gross assets of HII or the consolidated gross assets of the HII Group, as the case may be, 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, within the meaning of Treasury Regulation Section 1.355-7 or any successor regulation or rule of law, to enter into a transaction or series of transactions.

(B) Subject to Section 8.2(c)(v)(C) and Section 8.2(c)(v)(D), a transaction is described in this Section 8.2(c)(v)(B) if it is a transaction or part of a series of transactions (or is an agreement, understanding or arrangement, within the meaning of Treasury Regulation Section 1.355-7 or any successor regulation or rule of law, to enter into a transaction or 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; 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, (A) sell, convey, assign or otherwise transfer any shares of capital stock of NGC, (B) transfer any asset to NGC, or (C) 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 NGC from approving the amendment to its Certificate of Incorporation as contemplated by the Separation and Distribution Agreement, including Section 8.2 thereof.

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 obtaining a supplemental ruling or an Unqualified Tax Opinion requested by HII.

(b) Notwithstanding Section 8.3(a), (i) New NGC shall have no obligation to request a supplemental or other ruling if, upon consultation with appropriate IRS personnel, New NGC reasonably determines that IRS could be likely not to issue such ruling, and (ii) New NGC shall have no obligation 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 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 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.

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.

ARTICLE 9
COOPERATION

Section 9.1 General Cooperation.

The Parties each shall cooperate fully (and each shall cause its respective Subsidiaries to cooperate fully) with all reasonable requests in writing from another Party hereto, or from an agent, representative or advisor to such Party, in connection with the preparation and filing of Tax Returns, claims for Refunds, 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 each other 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 each 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 Party 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 Party in writing of any waivers or extensions of the applicable statute of limitations that may affect the 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 each other pursuant to this Agreement. Provided, however, that, if the Party receiving any 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 material adverse effect on such Party or any of its Affiliates.

**ARTICLE 10**
**MISCELLANEOUS**

**Section 10.1 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 10.2 Dispute Resolution.**

(a) **Negotiations.** The Parties shall endeavor, and shall cause their respective Affiliates to endeavor, to resolve any Tax Sharing Dispute in an amicable manner through negotiations in good faith for not less than 45 days involving senior executives of the Parties who have authority resolve the matter.

(b) **Appointment of Tax Arbitrator by the Parties.** Upon written notice by either Party to the other Party after such 45-day period, the Parties shall jointly choose, retain and appoint one individual to resolve the Tax Sharing 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, the 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 such individual’s availability to perform the services of Tax Arbitrator on a timely basis. Neither of the 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 Designated by the Parties.** If, having determined that the Tax Sharing Dispute must be referred to a Tax Arbitrator, the Parties cannot, after 45 days, retain a Tax Arbitrator who is acceptable to both Parties in good faith, then, upon written notice of either Party to the other Party, each Party shall designate and retain at its own expense an individual who shall have the qualifications described in Section 10.2(b). Such individuals shall agree upon and appoint as 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 imposed by such individual (or the Independent Firm of which he or she is a member or a retired member) for tax services. The appointment of the Tax Arbitrator by such individuals shall be final and binding on the Parties, except if they agree otherwise.
(d) **Proceedings Before Tax Arbitrator.** The Tax Arbitrator shall decide all points relating to the Tax Sharing Dispute. Except to the extent jointly determined by agreement of both 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 Sharing Dispute. All fees and expenses of the Tax Arbitrator shall be shared equally by New NGC and HII.

(e) **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 Sharing 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 10.3. 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 10.4. 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 10.5. 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.

**Section 10.6. Entire Agreement.**

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

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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 10.7 Assignment.

This Agreement shall not be assigned by any Party without the prior written consent of the other 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 10.8 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.

Section 10.9 Specific Performance.

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, 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 10.10 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 10.11 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 in question; 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 10.12 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 any New NGC Group Member, to:

Northrop Grumman Corporation

Attention: ________________________________
Facsimile: ________________________________

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

Northrop Grumman Corporation

Attention: ________________________________
Facsimile: ________________________________

(b) if to HII or any HII Group Member, to:

Huntington Ingalls Industries, Inc.

Attention: ________________________________
Facsimile: ________________________________

with a copy (which shall not constitute notice) to:
Section 10.13 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 10.14 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 10.15 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 10.16 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:  
Name:  
Title:  

HUNTINGTON INGALLS INDUSTRIES, INC.

By:  
Name:  
Title:  

[Signature Page to Tax Matters Agreement]
TRANSITION SERVICES AGREEMENT

between

NEW P, INC.

and

HUNTINGTON INGALLS INDUSTRIES, INC.

Dated as of [__________]
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TRANSITION SERVICES AGREEMENT

TRANSITION SERVICES AGREEMENT, dated as of [__________] (this “Transition Services Agreement”), between New P, Inc., a Delaware corporation (“New NGC”), and Huntington Ingalls Industries, Inc., a Delaware corporation (“HII”).

RECITALS

A. New NGC, HII, and Northrop Grumman Corporation, a Delaware corporation (“NGC”), 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 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. HII desires to purchase certain services from New NGC during a transition period, for the benefit of HII’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:

“HII” has the meaning set forth in the preamble, and shall include its Subsidiaries and successor(s).

“New NGC” has the meaning set forth in the preamble or, unless context otherwise requires, any of New NGC’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 New NGC 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) New NGC shall provide or cause one of its Subsidiaries to provide to HII 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 New NGC for HII’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 HII shall use such Services for substantially the same purposes and in substantially the same manner and level of service as HII had used such Services prior to the date hereof.
(b) Subject to Section 2.2(a), New NGC 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, New NGC 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 New NGC. 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 New NGC or any of its Subsidiaries or Affiliates to any Person, including to HII 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. New NGC shall be required to provide Services only to HII in connection with HII’s operation of the Shipbuilding Business. HII 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 HII. This provision shall not, however, prevent recovery by HII of all or any costs of such Services under any contract to which the HII is a party.

Section 2.6 Third-Party Providers. Each of HII and New NGC 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 New NGC in providing the Services (“Third-Party Products and Services”) and (b) where necessary, to obtain new licenses or similar agreements, to permit New NGC 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 New NGC shall exclusively conduct all negotiations with Third-Party Providers in connection with (a) and (b), and that HII shall provide reasonable cooperation to New NGC in connection with such negotiations. Pursuant to Section 3.2, HII 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 New NGC 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 New NGC to provide and for HII to receive Services under this Transition Services Agreement. New licenses and agreements necessary for HII 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.

Section 2.7 Non-Exclusivity. Subject to the provisions of Section 4.1(a)(i) governing the termination of Services, nothing in this Transition Services Agreement shall
preclude HII from obtaining, in whole or in part, services of any nature that may be obtainable from New NGC, from its own employees or from providers other than New NGC.

Section 2.8 Cooperation. HII shall, in a timely manner, take all such actions as may be reasonably necessary or desirable in order to enable or assist New NGC in the provision of Services to HII, including providing necessary information and specific written authorizations and consents, and New NGC shall be relieved of its obligations hereunder to the extent that HII fails to take any such action, or HII’s failure to conclude or maintain any such action renders performance or ongoing performance by New NGC of such obligations unlawful, impracticable or unreasonable, in New NGC’s sole determination. HII shall be liable to New NGC and its Subsidiaries and Affiliates for any Liabilities resulting from, arising out of or relating to HII’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) New NGC 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) HII 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) New NGC 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 HII;

(d) New NGC shall not be required to provide Services hereunder that are greater in nature and scope than the comparable services provided by New NGC to HII prior to the Distribution; and

(e) New NGC 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, New NGC, as it deems necessary or appropriate in its reasonable judgment, may (a) use the personnel of New NGC 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 New NGC obtains the services of a Third-Party Provider not routinely utilized to provide similar services to other business of New NGC, that HII consents prior to the use of such Third-Party Provider, which consent shall not be unreasonably withheld. New NGC 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
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 New NGC and those of HII as to the use of or access to a particular Service to be provided by New NGC, New NGC shall have the right, in its sole discretion, to establish reasonable priorities, at particular times and under particular circumstances, as between New NGC and HII. In any such situation, New NGC shall provide notice to HII of any such changes at the earliest practicable time.

Section 2.12 Independent Contractor. New NGC shall act under this Transition Services Agreement solely as an independent contractor and not as an agent of HII.

Section 2.13 Independence. Unless otherwise agreed in writing, all employees and representatives of New NGC 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 New NGC and not employees or representatives of HII. In performing the Services, such employees and representatives shall be under the direction, control and supervision of New NGC (and not HII) and New NGC 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. New NGC 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 New NGC shall notify HII 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, HII shall be notified that maintenance is required. New NGC shall give HII 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. New NGC 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 HII’s conduct of its business.

Section 2.15 Access. HII shall make available on a timely basis to New NGC all information and materials reasonably requested by New NGC to enable it to provide the Services. HII shall give New NGC 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. HII shall fully inform New NGC of all of its applicable security and safety rules and regulations, and when accessing HII’s business premises, New NGC shall use reasonable efforts to comply with all of HII’s security and safety rules and regulations as described to New NGC.
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. New NGC 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, New NGC was a provider of certain critical services necessary to the operations of the Shipbuilding Business. If the parties failed to list a service in 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 HII and New NGC 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, HII shall, for each Service performed, pay New NGC the applicable dollar amount for such Service set forth in Schedule A (the “Service Charge”). In addition to the Service Charge for such Services, New NGC shall also be entitled to reimbursement from HII upon receipt of reasonable supporting documentation for all reasonable and necessary third-party and out-of-pocket expenses incurred in connection with New NGC’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, New NGC shall submit an invoice to HII 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 HII can make appropriate cost settlements to each business unit and cost center. HII 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 HII at the following address, or pursuant to such other instructions as may be designated in writing by HII:

Huntington Ingalls Industries, Inc.
4101 Washington Avenue
Newport News, VA 23607
Attention: __________________________
Facsimile: __________________________
E-mail: __________________________

(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 New NGC or HII, 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 HII’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 HII fails to pay any amount due hereunder when due, New NGC shall have the right, without any liability to HII, or anyone claiming by or through HII, to cease providing any or all of the Services provided by New NGC to HII unless HII cures such a failure to make payment within five days of New NGC’s providing written notice of its intention to cease providing services, which right may be exercised by New NGC in its sole and absolute discretion.

Section 3.3 Taxes. All amounts invoiced by New NGC 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 HII directly to the appropriate state under direct payment permit No. 998008 (Virginia) and No. 57 (Mississippi).

Section 3.4 Disputed Amounts. In the event HII disputes the accuracy of any invoice, HII shall pay the full invoice. If HII fails to pay any undisputed amount owed under this Transition Services Agreement, HII shall correct such failure promptly following notice of the failure and shall pay New NGC 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.** New NGC shall not be obligated to pay any amounts to HII or any of their employees in respect of payroll, benefits or similar obligations.

Section 3.6 **Third-Party Obligations.** New NGC shall not be required to use its own funds for any third-party-provided service or payment obligation of HII.

Section 3.7 **Books and Records.** New NGC 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 HII upon reasonable notice, during normal business hours.

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**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 HII in accordance with Section 4.1(b) or by New NGC in accordance with Section 4.1(c) or (ii) this Transition Services Agreement is earlier terminated pursuant to Section 4.3.

(b) HII 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, HII pays to New NGC the out-of-pocket costs reasonably incurred by New NGC to settle or terminate any agreements with Third-Party Providers who provide Services to HII, as well as the incremental internal costs, but excluding employee termination and severance costs, incurred by New NGC, as reasonably determined by New NGC, 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 HII.

(c) New NGC may cease to provide any Service upon 60 days’ written notice to HII if New NGC permanently ceases to provide such service to New NGC’s subsidiaries, sectors, divisions and business units, **provided** that New NGC reasonably cooperates with HII in transitioning such Service to another supplier; provided, further, that New NGC shall not unilaterally cease Services that HII 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, New NGC shall be entitled to all outstanding amounts due from HII 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 New NGC holds books, records or files, including current and archived copies of computer files, owned by HII and used by New NGC in connection with the provision of a Service to HII, New NGC will return all of such books, records or files as soon as reasonably practicable. HII shall bear New NGC’s costs and expenses associated with the return of such documents. At its expense, New NGC 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. New NGC 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, New NGC’s obligations hereunder shall be postponed for such time as its performance is suspended or delayed on account thereof. New NGC will promptly notify HII 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, New NGC 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 New NGC 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 New NGC by HII 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 New NGC with respect to any error or defect in the provision of any Service, New NGC shall, at HII’s request, correct such error or defect or re-perform such Services at the expense of New NGC.

Section 6.4  **Release and Indemnity.** Except as specifically set forth in this Transition Services Agreement, HII hereby releases New NGC, its employees, agents, officers and directors (the “**New NGC Indemnitees**”) and agrees to indemnify and hold harmless the New NGC 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 New NGC.

**ARTICLE VII**

**CONFIDENTIALITY; TITLE TO DATA; INFORMATION SYSTEMS**

Section 7.1  **Confidentiality.** 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.

Section 7.2 Title to Data.

(a) HII 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 New NGC, by reason of New NGC’s provision of the Services provided hereunder.

(b) New NGC agrees that all records, data, files, input materials and other information received or computed for the benefit of HII and which relate to the conduct of HII’s operations are the property of HII. Nothing in the previous sentence shall create any obligation on the part of New NGC to provide hardware or other equipment to HII for the conduct of HII’s operations.

Section 7.3 Intellectual Property. The parties agree that each of New NGC and HII, 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 New NGC or HII, 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 HII as recipient of such Service shall be owned by HII. To the extent necessary to give effect to the foregoing, upon the request of New NGC or HII having created or developed Services IP, New NGC or HII, 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 HII, which shall be owned by HII) 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 New NGC or HII, as applicable, of the intellectual property, technology or data of New NGC or HII, as applicable, then New NGC or HII, 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 Section 7.2(b), the transfer of intellectual property shall be governed exclusively by the Separation Agreement and IP License Agreement.

Section 7.4 Use of New NGC’s Information Systems.

(a) HII acknowledges and agrees that use of New NGC’s computer network and Information Solutions Services (collectively, the “New NGC’s Network”) by
HII, its employees, contractors and anyone else that HII directly or indirectly authorizes to use New NGC’s Network (“Authorized Users”) shall be subject to compliance with New NGC’s Corporate Policy CP R1, “Computer Systems and Electronic Media,” and New NGC’s related corporate procedures, copies of which have been made available to HII. HII shall provide a copy of New NGC’s Corporate Policy CP R1 to all Authorized Users. New NGC shall use reasonable best efforts to provide HII with 20 days’ advance notice of any changes to Corporate Policy CP R1. This applies only to the New NGC network and does not apply to any networks that are firewallled off from the New NGC network.

(b) HII further acknowledges and agrees that all Authorized Users will see, at the time of login to New NGC’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 New NGC’s Network and that any communications or data that pass through or are stored on New NGC’s Network may be monitored, intercepted, searched, disclosed or used for any lawful purpose by New NGC or a third party (the “New NGC’s Banner”). HII shall require consent to the terms of New NGC’s Banner as a condition precedent for use of New NGC’s Network by Authorized Users.

(c) HII 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.

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

NEW P, INC.

By: 
Name: 
Title: 

HUNTINGTON INGALLS INDUSTRIES, INC.

By: 
Name: 
Title: 

[Signature Page to Transition Services Agreement]
PERFORMANCE AND INDEMNITY AGREEMENT

[__________]

Between

Huntington Ingalls Industries, Inc. and Northrop Grumman Corporation

Relating to the performance guarantees entered into between Northrop Grumman Corporation and the United States of America, Naval Sea Systems Command (the “Navy”) in connection with certain shipbuilding contracts between Northrop Grumman Shipbuilding, Inc. and the Navy
THIS PERFORMANCE AND INDEMNITY AGREEMENT (this “Agreement”) is made as of [__________], by and between Huntington Ingalls Industries, Inc., a Delaware corporation having its office at 4101 Washington Avenue, Newport News, VA 23607 (“HII”), and Northrop Grumman Corporation, a Delaware corporation having its office at 4101 Washington Avenue, Newport News, VA 23607 (“NGC”).

RECATLALS

A. Pursuant to the Separation and Distribution Agreement (the “Separation Agreement”), dated as of the date hereof, among HII, NGC, New P, Inc., a Delaware corporation (“New NGC”) and certain subsidiaries of NGC, the parties thereto have agreed, among other things, that New NGC will distribute all of the outstanding shares of common stock of HII to the holders of common stock of New NGC (the “Distribution”).

B. Pursuant to (a) the Performance Guaranty (the “2002 Performance Guaranty”), dated as of April 11, 2002, by NGC, as guarantor, to the United States of America, Naval Sea Systems Command (the “Navy”), as beneficiary, (b) the Performance Guaranty (the “2006 Performance Guaranty”), dated 2006, by NGC, as guarantor, to the Navy, as beneficiary, (c) the Performance Guaranty (the “2007 Performance Guaranty”), dated as of April 24, 2007, by NGC, as guarantor, to the Navy, as beneficiary, and (d) any other similar guarantee pursuant to which NGC has guaranteed the performance of Northrop Grumman Shipbuilding, Inc., a Virginia corporation (“NGSB”), or any affiliate of NGSB, under shipbuilding construction contracts with the Navy or a command or other division thereof (any such guarantee, together with the 2002 Performance Guaranty, the 2006 Performance Guaranty and the 2007 Performance Guaranty, the “Navy Guarantees”), NGC has guaranteed the full and prompt performance of obligations of NGSB under the related construction contracts between NGSB and the Navy.

C. As a condition to the Distribution under the Separation Agreement, HII and NGC must execute and deliver this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, agreements and conditions herein contained, the parties hereto agree as follows:

1. PERFORMANCE BY HII ON BEHALF OF NGC

1.1 HII shall comply, on behalf of NGC, with all the provisions of the Navy Guarantees with which NGC is obligated to comply. HII shall have responsibility for the payment and performance of all outstanding obligations and liabilities of every type and description of the guarantor under the Navy Guarantees whether now existing or hereafter arising under the Navy Guarantees and shall pay and perform such outstanding obligations and liabilities in the time and manner required under the Navy Guarantees as the same fall due for payment and performance, notwithstanding that a request for payment and/or performance may be directed to NGC.

1.2 HII shall remain responsible to comply with all the provisions of the Navy Guarantees on behalf of NGC, even if such provisions are amended, supplemented or otherwise modified after the date hereof.
1.3 NGC will continue to be the guarantor of the Navy Contracts as provided in the Navy Guarantees. Nothing in this Agreement will release NGC from its obligations as guarantor under the Navy Guarantees.

2. INDEMNIFICATION

HII shall indemnify NGC and keep NGC fully and effectively indemnified from and against and hold NGC harmless from and against any and all past, present and future liabilities, losses, damages, penalties, judgments, actions, proceedings, claims, demands, costs, fees and expenses of any kind or nature whatsoever to which NGC may become subject or that may be imposed on, incurred by, suffered by, made against or asserted against NGC, in any manner relating to, arising out of or in connection with the Navy Guarantees and/or any failure by HII to perform any of those obligations, including in respect of any failure on the part of NGC to perform any of those obligations which by this Agreement are to be performed by HII, or any claim, litigation, investigation or proceeding relating thereto and to reimburse NGC upon demand for any legal or other expenses incurred in connection with investigating or defending any of the foregoing.

3. FURTHER ASSURANCES

HII, at its own expense, shall perform promptly such acts as may be reasonably necessary or advisable, or that NGC may reasonably request at any time, to carry out the intent of this Agreement, including, to execute and deliver (or cause any third party to execute and deliver) any such additional agreements, documents and instruments to evidence HII’s agreements to comply with the provisions of the Navy Guarantees on NGC’s behalf and to indemnify NGC as set forth in Sections 1 and 2 hereof.

4. ENTIRE AGREEMENT

This Agreement represents the entire agreement between the parties in relation to the subject matter of this Agreement and supersedes any previous agreement whether written or oral between the parties in relation to that subject matter.

5. SEVERABILITY

If any term or provision of this Agreement shall be held to be illegal or unenforceable, in whole or in part, under any enactment or rule of law, such term or provision, or part thereof, to the extent that it is illegal or unenforceable, shall be deemed not to form part of this Agreement but the enforceability of the remainder of this Agreement shall not be affected. Subject to the preceding sentence, should any term or provision of this Agreement be or become ineffective, in whole or in part, for reasons beyond the control of the parties, the parties shall use reasonable efforts to agree upon a new provision which shall as nearly as possible have the same commercial effect as the ineffective term or provision or part thereof.
6. **NOTICES**

Any notice or other communications required or permitted hereunder shall be sufficiently given if delivered in person, transmitted via facsimile (but only if followed by transmittal by recognized overnight courier or hand delivery), or sent by registered or certified mail, postage prepaid, or recognized overnight courier service addressed to the party concerned at the relevant address shown at the beginning of this Agreement (or such other address as may be notified from time to time in accordance with this Clause by the relevant party to the other party), and such notice or communication shall be deemed to have been given (a) as of the date so personally delivered or transmitted via facsimile, (b) on the third Business Day after the mailing thereof or (c) on the first Business Day after delivery by recognized overnight courier service. The term “Business Day” shall mean any 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.

7. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts and by the parties on separate counterparts, each of which shall be deemed an original and all of which taken together shall constitute a single agreement.

8. **GOVERNING LAW**

THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (OTHER THAN CHOICE OF LAW RULES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION).

9. **INTERPRETATION**

9.1 References

In this Agreement, unless the context otherwise requires:

(a) any reference to an agreement or other document is to that document as amended, supplemented or replaced from time to time; and

(b) the definitions of terms herein shall apply equally to the singular and plural forms of the terms defined.

9.2 Headings

In this Agreement the headings are for convenience only and shall not affect the interpretation or construction of this Agreement.

[Remainder of page intentionally left blank.]
IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their respective officers or authorized signatories thereunto duly authorized as of the date first above written.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ________________________________
Name: 
Title: 

NORTHROP GRUMMAN CORPORATION

By: ________________________________
Name: 
Title: 

Signature Page to Performance and Indemnity Agreement — Navy Guarantees
PERFORMANCE AND INDEMNITY AGREEMENT

Between

Huntington Ingalls Industries, Inc. and Northrop Grumman Corporation ("NGC")

Relating to the Guaranty Agreement between NGC and
The Bank of New York Mellon Trust Company, N.A., as trustee
THIS PERFORMANCE AND INDEMNITY AGREEMENT (this “Agreement”) is made as of [___________], 2011, by and between Huntington Ingalls Industries, Inc., a Delaware corporation having its office at 4101 Washington Avenue, Newport News, VA 23607 (“HII”), and Northrop Grumman Corporation, a Delaware corporation having its office at 4101 Washington Avenue, Newport News, VA 23607 (“NGC”).

RECITALS

A. Pursuant to the Separation and Distribution Agreement (the “Separation Agreement”), dated as of the date hereof, among HII, NGC, New P, Inc., a Delaware corporation (“New NGC”) and certain subsidiaries of NGC, the parties thereto have agreed, among other things, that New NGC will distribute all of the outstanding shares of common stock of HII to the holders of common stock of New NGC (the “Distribution”).

B. Pursuant to the Guaranty Agreement (the “Guaranty Agreement”), dated as of December 1, 2006, between NGC, as guarantor, and The Bank of New York Mellon Trust Company, N.A. (formerly known as The Bank of New York Trust Company, N.A.), as trustee (“BoNY”), NGC has guaranteed the payment of the Gulf Opportunity Zone Industrial Development Revenue Bonds (NGSS, Inc. Project), Series 2006 due 2028 (the “Bonds”), issued by the Mississippi Business Finance Corporation (“MBFC”) on behalf of Northrop Grumman Shipbuilding, Inc., a Virginia corporation, a subsidiary of NGC, under the Trust Indenture (the “Indenture”), dated as of December 1, 2006, by and between the MBFC, as issuer, and BoNY, as trustee.

C. As a condition to the Distribution under the Separation Agreement, HII and NGC must execute and deliver this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants, agreements and conditions herein contained, the parties hereto agree as follows:

1. PERFORMANCE BY HII ON BEHALF OF NGC

1.1 HII shall comply, on behalf of NGC, with all the provisions of the Guaranty Agreement with which NGC is obligated to comply. HII shall have responsibility for the payment and performance of all outstanding indebtedness, obligations and liabilities of every type and description of the guarantor under the Guaranty Agreement whether now existing or hereafter arising under the Guaranty Agreement and shall pay and perform such outstanding indebtedness, obligations and liabilities in the time and manner required under the Guaranty Agreement as the same fall due for payment and performance, notwithstanding that a request for payment and/or performance may be directed to NGC.

1.2 If required in accordance with the terms of the Guaranty Agreement, HII shall make (a) the full and prompt payment of the principal of, and premium, if any, on the Bonds when and as the same shall become due, whether at the stated maturity thereof, by acceleration, call for redemption, tender for purchase or otherwise; (b) the full and prompt payment of any interest on the Bonds when and as the same shall become due; and (c) the full and prompt payment when and as the same shall become due of any and
all amounts which may become due under the Indenture (as defined in the Guaranty Agreement), the Note (as defined in the Indenture) or the Loan Agreement (as defined in the Guaranty Agreement).

1.3 HII shall remain responsible to comply with all the provisions of the Guaranty Agreement on behalf of NGC, even if such provisions are amended, supplemented or otherwise modified after the date hereof.

1.4 NGC will continue to be the guarantor of the Bonds as provided in the Guaranty Agreement. Nothing in this Agreement will release NGC from its obligations as guarantor under the Guaranty Agreement.

2. INDEMNIFICATION

HII shall indemnify NGC and keep NGC fully and effectively indemnified from and against and hold NGC harmless from and against any and all past, present and future liabilities, losses, damages, penalties, judgments, actions, proceedings, claims, demands, costs, fees and expenses of any kind or nature whatsoever to which NGC may become subject or that may be imposed on, incurred by, suffered by, made against or asserted against NGC, in any manner relating to, arising out of or in connection with the Guaranty Agreement and/or any failure by HII to perform any of those obligations, including in respect of any failure on the part of NGC to perform any of those obligations which by this Agreement are to be performed by HII, or any claim, litigation, investigation or proceeding relating thereto and to reimburse NGC upon demand for any legal or other expenses incurred in connection with investigating or defending any of the foregoing.

3. WAIVERS

3.1 HII hereby waives, consistent with and to the extent waived in the Guaranty Agreement, any and all defenses, legal or equitable, that it may have against any person to liability hereunder, including (i) the illegality, invalidity or unenforceability of the Guaranty Agreement and (ii) all defenses that at any time may be available to it by virtue of any valuation, stay, moratorium or other law now or hereafter in effect.

3.2 HII hereby waives any setoff or counterclaim related to its obligations under this Agreement that may at any time be available to it.

3.3 HII hereby waives presentment, demand for payment or performance, including diligence in making demands hereunder, notice of dishonor or nonperformance, protest and all other notices of any kind, including (i) notice of the existence, creation or incurrence of new or additional indebtedness, liabilities or obligations under the Guaranty Agreement, (ii) notice of any action taken or omitted in connection with the Guaranty Agreement, (iii) notice of any default by NGC, (iv) notice that any portion of the indebtedness, liabilities or obligations under the Guaranty Agreement is due, and (v) notice of any action against NGC.
4. **FURTHER ASSURANCES**

HII, at its own expense, shall perform promptly such acts as may be reasonably necessary or advisable, or that NGC may reasonably request at any time, to carry out the intent of this Agreement, including, to execute and deliver (or cause any third party to execute and deliver) any such additional agreements, documents and instruments to evidence HII’s agreements to comply with the provisions of the Guaranty Agreement on NGC’s behalf and to indemnify NGC as set forth in Sections 1 and 2 hereof.

5. **ENTIRE AGREEMENT**

This Agreement represents the entire agreement between the parties in relation to the subject matter of this Agreement and supersedes any previous agreement whether written or oral between the parties in relation to that subject matter.

6. **SEVERABILITY**

If any term or provision of this Agreement shall be held to be illegal or unenforceable, in whole or in part, under any enactment or rule of law, such term or provision, or part thereof, to the extent that it is illegal or unenforceable, shall be deemed not to form part of this Agreement but the enforceability of the remainder of this Agreement shall not be affected. Subject to the preceding sentence, should any term or provision of this Agreement be or become ineffective, in whole or in part, for reasons beyond the control of the parties, the parties shall use reasonable efforts to agree upon a new provision which shall as nearly as possible have the same commercial effect as the ineffective term or provision or part thereof.

7. **NOTICES**

Any notice or other communications required or permitted hereunder shall be sufficiently given if delivered in person, transmitted via facsimile (but only if followed by transmittal by recognized overnight courier or hand delivery), or sent by registered or certified mail, postage prepaid, or recognized overnight courier service addressed to the party concerned at the relevant address shown at the beginning of this Agreement (or such other address as may be notified from time to time in accordance with this Clause by the relevant party to the other party), and such notice or communication shall be deemed to have been given (a) as of the date so personally delivered or transmitted via facsimile, (b) on the third Business Day after the mailing thereof or (c) on the first Business Day after delivery by recognized overnight courier service. The term “Business Day” shall mean any 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.

8. **COUNTERPARTS**

This Agreement may be executed in any number of counterparts and by the parties on separate counterparts, each of which shall be deemed an original and all of which taken together shall constitute a single agreement.
9. GOVERNING LAW

THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (OTHER THAN CHOICE OF LAW RULES THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF ANY OTHER JURISDICTION).

10. INTERPRETATION

10.1 References

In this Agreement, unless the context otherwise requires:

(a) any reference to an agreement or other document is to that document as amended, supplemented or replaced from time to time; and

(b) the definitions of terms herein shall apply equally to the singular and plural forms of the terms defined.

10.2 Headings

In this Agreement the headings are for convenience only and shall not affect the interpretation or construction of this Agreement.

[Remainder of page intentionally left blank.]
IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their respective officers or authorized signatories thereunto duly authorized as of the date first above written.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ________________________________
Name: ______________________________
Title: ______________________________

NORTHROP GRUMMAN CORPORATION

By: ________________________________
Name: ______________________________
Title: ______________________________

Signature Page to Performance and Indemnity Agreement — Guaranty Agreement
INGALLS GUARANTY PERFORMANCE, INDEMNITY AND TERMINATION AGREEMENT


RECITALS

A. Pursuant to the Separation and Distribution Agreement (the “Separation Agreement”), dated as of the date hereof, among Northrop Grumman Corporation (“NGC”), New P, Inc. (“New NGC”), HII and certain subsidiaries of NGC, the parties thereto have agreed, among other things, that New NGC will distribute all of the outstanding shares of common stock of HII to the holders of common stock of New NGC (the “Distribution”).

B. Pursuant to the Guaranty Agreement (the “Guaranty Agreement”), dated as of May 1, 1999, by and between Litton Industries, Inc. and The Bank of New York Mellon (as successor to The First National Bank of Chicago), as trustee (the “Trustee”), which Guaranty Agreement was assumed by NGSC pursuant to the Assumption of Guaranty, dated as of January 1, 2003, NGSC has guaranteed the payment to the Trustee of the Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project) Taxable Series 1999A (the “Bonds”) issued by the Mississippi Business Finance Corporation (the “MBFC”) on behalf of NGSB (as successor to Northrop Grumman Ship Systems, Inc. (formerly named Ingalls Shipbuilding, Inc.)), under the Indenture of Trust, dated as of May 1, 1999 (the “Indenture”), between the MBFC and the Trustee, and certain payments under the related Loan Agreement, dated as of May 1, 1999 (the “Loan Agreement”, and together with the Guaranty Agreement, the Bonds and the Indenture, the “Debt Agreements”), between the MBFC and NGSB.

C. As a condition to the Distribution under the Separation Agreement, HII, NGSB and NGSC must execute and deliver this Guaranty Performance Agreement.

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:

1. Performance By HII on Behalf of NGSC.
   
   (a) HII shall comply, on behalf of NGSC, with all the provisions of the Guaranty Agreement with which NGSC is obligated to comply. HII shall have responsibility for the payment and performance of all outstanding indebtedness, obligations and liabilities of every type and description of the guarantor under the Guaranty Agreement whether now existing or hereafter arising under the Guaranty Agreement and shall pay and perform such outstanding indebtedness, obligations and liabilities in the time and manner required under the Guaranty Agreement.
Agreement as the same fall due for payment and performance, notwithstanding that a request for payment and/or performance may be directed to NGSC.

(b) If required in accordance with the terms of the Guaranty Agreement, HII shall make the full and prompt payment of (i) the principal of, and
redemption premium, if any, on the Bonds when and as the same shall become due (whether at maturity, by acceleration, upon call for redemption or
otherwise); (ii) the interest on the Bonds when and as the same shall become due; and (iii) all amounts due or to become due from NGSB under Section 4.2(a)
of the Loan Agreement. In addition, if required in accordance with the terms of the Guaranty Agreement, HII shall make (i) the full and prompt payment of all
amounts due or to become due from NGSB under Section 4.2(b) of the Loan Agreement; and (ii) the full and prompt payment of all amounts due or to become
due from NGSB under Sections 4.2(c), 5.2 and 6.3 of the Loan Agreement.

(c) HII shall remain responsible to comply with all the provisions of the Guaranty Agreement on behalf of NGSC, even if such provisions are amended,
supplemented or otherwise modified after the date hereof.

2. Indemnification. HII and NGSB shall, jointly and severally, indemnify NGSC and keep NGSC fully and effectively indemnified from and against and
hold NGSC harmless from and against any and all past, present and future liabilities, losses, damages, penalties, judgments, actions, proceedings, claims,
demands, costs, fees and expenses of any kind or nature whatsoever to which NGSC may become subject or that may be imposed on, incurred by, suffered
by, made against or asserted against NGSC, in any manner relating to, arising out of or in connection with the Guaranty Agreement or Loan Agreement and/or
any failure by HII to perform any of those obligations, including in respect of any failure on the part of NGSC to perform any of those obligations which by
this Guaranty Performance Agreement are to be performed by HII, or any claim, litigation, investigation or proceeding relating thereto and to reimburse NGSC
upon demand for any legal or other expenses incurred in connection with investigating or defending any of the foregoing.

3. Waivers.

(a) Each of HII and NGSB hereby waives, consistent with and to the extent waived in Debt Agreements, any and all defenses, legal or equitable, that it
may have against any person to liability hereunder, including (i) the illegality, invalidity or unenforceability of the Guaranty Agreement and (ii) all defenses
that at any time may be available to it by virtue of any valuation, stay, moratorium or other law now or hereafter in effect.

(b) Each of HII and NGSB hereby waives any setoff or counterclaim related to its obligations under this Guaranty Performance Agreement that may at
any time be available to it.

(c) Each of HII and NGSB hereby waives presentment, demand for payment or performance, including diligence in making demands hereunder, notice
of dishonor or nonperformance, protest and all other notices of any kind.
4. **Required Actions Upon a Change of Control**

   (a) Upon HII or NGSB becoming aware of the reasonable likelihood of the occurrence of a Change of Control, HII and NGSB promptly shall provide notice to NGSC describing in reasonable detail (i) the transaction that may constitute the Change of Control, (ii) which of the actions required by Section 4(b) of this Guaranty Performance Agreement that HII and NGSB has elected, and (iii) describing in reasonable detail the method and timing of events to accomplish such action.

   (b) On or prior to a Change of Control, HII and NGSB shall:

      (i) terminate the Guaranty Agreement in accordance with its terms (including by causing the entire principal of, redemption premium, if any and interest on the Bonds to be paid or provided for in accordance with the terms of the Indenture (which may be by deposit of moneys as contemplated in Article VII thereof));

      (ii) obtain the requisite consents to a full and unconditional release of NGSC under the Guaranty Agreement (which may be by way of an assignment) in accordance with the terms of the Debt Agreements (and such release shall have occurred); or

      (iii) at all times prior to a termination of the Guaranty Agreement or a full and unconditional release of NGSC under the Guaranty Agreement, provide credit support in the form of cash collateral or one or more standby letters of credit (and maintain such credit support, including by renewals or replacements of any letter of credit no later than 60 calendar days prior to the expiry of an existing letter of credit), the amount, terms and provider of which shall be reasonably satisfactory to NGSC, to support (including amounts that may be recoverable as preferential payments) the principal of and redemption premium, if any, on the Bonds when and as the same shall become due (whether at maturity, by acceleration, call for redemption or otherwise), the interest on the Bonds when and as the same shall become due, and all amounts due or to become due under Section 4.2(a), (b) and (c), Section 5.2 and Section 6.3 of the Loan Agreement.

   Each of the parties hereby agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by HII or NGSB of the provisions of this Section 4(b) and HII and NGSB hereby agree to waive the defense in any action for specific performance that a remedy at law would be adequate.

   (c) For purposes of the foregoing, the following definitions are applicable:

      “Change of Control” means the occurrence of any of the following: (i) 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, or of NGSB and its subsidiaries taken as a whole, to any Person (as defined below) or group of related persons for purposes of Section 13(d) of the Exchange Act (a “Group”) other than HII, NGSB or one of its subsidiaries; (ii) the approval by the holders of HII’s or NGSB’s common stock of any plan or proposal for the liquidation or dissolution of HII or NGSB; (iii) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any Person or Group

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becomes the beneficial owner, directly or indirectly, of more than 50% of the then-outstanding number of shares of HII or NGSB voting stock; or (iv) the first day on which a majority of the members of HII’s Board of Directors or NGSB’s Board of Directors are not Continuing Directors (as defined below).

“Continuing Directors” means, as of any date of determination, any member of the Board of Directors of HII or NGSB, as applicable, who (i) was a member of such Board of Directors on the date of the Distribution; or (ii) 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).

“Person” has the meaning set forth in the Indenture and includes a “person” as used in Section 13(d)(3) of the Exchange Act.

5. Annual Fee. So long as NGSC has any liability (contingent or otherwise) under the Guaranty, NGSB shall pay to NGSC, on May 1 and November 1 of each year, commencing on May 1, 2011, a fee in an amount equal to 1.0% per annum (computed on the basis of a 360-day year comprised of twelve 30-day months) of the aggregate principal amount of the Bonds outstanding on the fifteenth day of the calendar month immediately preceding such payment date; provided that no such fee shall be payable if credit support is being provided and maintained in accordance with Section 4(b)(iii) of this Guaranty Performance Agreement.

6. Further Assurances. Each of HII and NGSB, at its own expense, shall perform promptly such acts as may be reasonably necessary or advisable, or that NGSC may reasonably request at any time, to carry out the intent of this Guaranty Performance Agreement, including to execute and deliver (or cause any third party to execute and deliver) any such additional agreements, documents and instruments to evidence HII’s and NGSB’s agreements to comply with the provisions of the Guaranty Agreement on NGSC’s behalf and to indemnify NGSC as set forth in Sections 1 and 2 of this Guaranty Performance Agreement and to evidence the termination of the Guaranty.

7. Entire Agreement. This Guaranty Performance Agreement represents the entire agreement between the parties in relation to the subject matter of this Guaranty Performance Agreement and supersedes any previous agreement whether written or oral between the parties in relation to that subject matter.

8. Severability. If any term or provision of this Guaranty Performance Agreement shall be held to be illegal or unenforceable, in whole or in part, under any enactment or rule of law, such term or provision, or part thereof, to the extent that it is illegal or unenforceable, shall be deemed not to form part of this Guaranty Performance Agreement but the enforceability of the remainder of this Guaranty Performance Agreement shall not be affected. Subject to the preceding sentence, should any term or provision of this Guaranty Performance Agreement be or become ineffective, in whole or in part, for reasons beyond the control of the parties, the parties shall use reasonable efforts to agree upon a new provision which shall as nearly as possible have the same commercial effect as the ineffective term or provision or part thereof.
9. **Notices.** Any notice or other communications required or permitted hereunder shall be sufficiently given if delivered in person, transmitted via facsimile (but only if followed by transmittal by recognized overnight courier or hand delivery), or sent by registered or certified mail, postage prepaid, or recognized overnight courier service addressed to the party concerned at the relevant address shown at the beginning of this Guaranty Performance Agreement (or such other address as may be notified from time to time in accordance with this Section by the relevant party to the other parties), and such notice or communication shall be deemed to have been given (a) as of the date so personally delivered or transmitted via facsimile, (b) on the third Business Day after the mailing thereof or (c) on the first Business Day after delivery by recognized overnight courier service. The term “Business Day” shall mean any 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.

10. **Counterparts.** This Guaranty Performance Agreement may be executed in any number of counterparts and by the parties on separate counterparts, each of which shall be deemed an original and all of which taken together shall constitute a single agreement.


12. **Interpretation.**

   (a) In this Guaranty Performance Agreement, unless the context otherwise requires:

   (i) any reference to an agreement or other document is to that document as amended, supplemented or replaced from time to time; and

   (ii) the definitions of terms herein shall apply equally to the singular and plural forms of the terms defined.

   (b) In this Guaranty Performance Agreement the headings are for convenience only and shall not affect the interpretation or construction of this Guaranty Performance Agreement.

13. **Assignment.** This Guaranty Performance Agreement shall be binding on each party hereto, and its successors and assigns; provided that this Guaranty Performance Agreement may not be assigned, in whole or in part, by operation of law or otherwise, by HII or NGSB without the prior written consent of NGSC, which consent shall not to be unreasonably withheld, and any such assignment without such prior written consent shall be null and void.

[Remainder of page intentionally left blank.]
IN WITNESS WHEREOF, the parties have caused this Guaranty Performance Agreement to be executed and delivered by their respective officers or authorized signatories thereunto duly authorized as of the date first above written.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ________________________________
Name: ______________________________
Title: ______________________________

NORTHROP GRUMMAN SHIPBUILDING, INC.

By: ________________________________
Name: ______________________________
Title: ______________________________

NORTHROP GRUMMAN SYSTEMS CORPORATION

By: ________________________________
Name: ______________________________
Title: ______________________________

Signature Page to Ingalls Guaranty Performance, Indemnity and Termination Agreement
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The Huntington Ingalls Industries Supplemental Plan 2 (the “Plan”) is hereby adopted effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

See Appendix 3 for special rules related to the spin-off of the Company from Northrop Grumman Corporation.

ARTICLE 1
Definitions

For purposes of the Plan, the following terms, when capitalized, will have the following meanings:

1.01 Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Huntington Ingalls Industries, Inc. and its 80%-owned subsidiaries and may include other entities as well.

1.02 Board of Directors. The Board of Directors of the Company.

1.03 CIC Plans. Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan.


1.05 Company. Huntington Ingalls Industries, Inc.


1.08 Grandfathered Amounts. Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.

1.09 Key Employee. An employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (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 twelve (12) month period commencing on April 1 of the following year.

1.10 Participant. Any employee of the Company who is eligible for benefits under a particular Program and has not received full payment under the Program.

1.11 Payment Date. The 1st of the month coincident with or following the later of (a) the date the Participant attains age 55, or (b) the date the Participant Separates from Service.

1.12 Pension Plan.
   (a) The Northrop Grumman Pension Plan (subject to the special effective dates noted below for the following merged plans)
      • The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
      • The Northrop Grumman Commercial Aircraft Division Salaried Retirement Plan (effective as of July 1, 2000)
      • The Grumman Pension Plan (effective as of July 1, 2003)
   (b) The Northrop Grumman Electronic Systems — Space Division Consolidated Pension Plan (effective as of October 22, 2001)
   (c) The Northrop Grumman Norden Systems Employee Retirement Plan (effective July 1, 2003)


1.14 Program. One of the eligibility and benefit structures described in the Appendices.

1.15 Qualified Plan. The Northrop Grumman Pension Plan and Cash Balance Plans (as defined under the Northrop Grumman Pension Plan).

1.16 Separation from Service or Separates from Service. A “separation from service” within the meaning of Code section 409A.
1.17 Termination of Employment. Complete termination of employment with the Affiliated Companies.

(a) If a Participant leaves one Affiliated Company to go to work for another, he or she will not have a Termination of Employment.

(b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spunoff.
ARTICLE II

General Provisions

2.01 In General. The Plan contains a number of different benefit Programs which are set forth in the Appendices. The Appendices describe the eligibility conditions and the amount of benefits payable under the Programs. The Company, in its sole discretion, will determine all eligibility conditions, make all benefit determinations, and otherwise exercise sole authority to interpret the Plan and Programs.

2.02 Treatment of 2000 Ad Hoc Increases for Retirees. In no event, however, (1) will this Plan pay any amount of a Participant’s retirement benefit, if any, attributable to the “2000 Ad Hoc Increase for Retirees” Appendix added to certain of the Company’s tax-qualified plans pursuant to the Northrop Grumman Corporation Board of Directors resolution adopted May 17, 2000, or (2) will a Participant be entitled to a benefit (or an increased benefit) from or as a result of participation in this Plan under the Northrop Grumman Corporation Board of Directors resolution adopted May 17, 2000.

2.03 Forms and Times of Benefit Payments. This Section only applies to Grandfathered Amounts. The Company will determine the form and timing of benefit payments in its sole discretion unless particular rules regarding the form and timing of benefit payments are set forth in a Program or where a lump sum election under Article III is applicable.

(a) For payments made to supplement those of a particular tax-qualified retirement or savings plan, the Company will only select among the options available under that plan, using the same actuarial adjustments used in that plan, except in cases of lump sums.

(b) Whenever the present value of the amount payable under a particular Program does not exceed $10,000, it will be paid in the form of a single lump sum as of the first of the month following Termination of Employment. The lump sum will be calculated using the factors and methodology described in Section 3.06 below (See Section 2.05 for the rule that applies as of January 1, 2008).

(c) No payments will commence under this Plan until a Participant has a Termination of Employment, even in cases where benefits have commenced under a qualified retirement plan for Participants over age 70 1/2, or for any other reason.

See Appendix 1 and Appendix 2 for the rules that apply to other benefits earned under the Plan.

2.04 Beneficiaries and Spouses. This Section only applies to Grandfathered Amounts. If the Company selects a form of payment which includes a survivor benefit, the
Participant may make a beneficiary designation, which may be changed at any time prior to commencement of benefits. A beneficiary designation must be in writing and will be effective only when received by the Company.

(a) If a Participant is married on the date his or her benefits are scheduled to commence, his or her beneficiary will be his or her spouse unless some other beneficiary is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before benefits commence and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

(b) With respect to Programs designed to supplement tax-qualified retirement or savings plans, the Participant’s spouse will be the spouse as determined under the underlying tax-qualified plan. Otherwise, the Participant’s spouse will be determined by the Company in its sole discretion.

See Appendix 1 and Appendix 2 for the rules that apply to other benefits earned under the Plan.

2.05 Mandatory Cashout. Notwithstanding any other provisions in the Plan, Participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

(a) Post-2007 Terminations. Participants who have a Termination of Employment after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts under a Program within two months of Termination of Employment (without interest), if such present value is below the Code section 402(g) limit in effect at the Termination of Employment.

(b) Pre-2008 Terminations. Participants who had a Termination of Employment before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts under a Program within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Huntington Ingalls Industries Pension Plan shall be used.

2.06 Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

(a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment
of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.

(b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

<table>
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<th>Interest Rate:</th>
<th>6%</th>
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<td>Mortality Table:</td>
<td>RP-2000 Mortality Table projected 15 years for future standardized cash balance factors</td>
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2.07 **Special Tax Distribution.** On the date a Participant’s retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Participant’s portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will be based on all benefits under the Plan, including Grandfathered Amounts. This payment will reduce the Participant’s future benefit payments under the Plan on an actuarial basis.

2.08 **Amendment and Plan Termination.** The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not a Participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant’s accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent “material modification” to the Grandfathered Amounts.

The Company may, in its sole discretion, seek reimbursement from the Company’s tax-qualified plans to the extent this Plan pays tax-qualified plan benefits to which Participants were entitled to or became entitled to under the tax-qualified plans.

2.09 **Not an Employment Agreement.** Nothing contained in this Plan gives any Participant the right to be retained in the service of the Company, nor does it interfere with the right of the Company to discharge or otherwise deal with Participants without regard to the existence of this Plan.

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2.10 **Assignment of Benefits.** A Participant, surviving spouse or beneficiary may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to attachment or garnishment by any of their creditors or to legal process.

Notwithstanding the foregoing, all or a portion of a Participant’s benefit may be paid to another person as specified in a domestic relations order that the plan administrator determines is qualified (a “Qualified Domestic Relations Order”). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

1. issued pursuant to a State’s domestic relations law;

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

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

4. meets such other requirements established by the plan administrator.

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

2.11 **Nonduplication of Benefits.** This Section applies if, despite Section 2.10, with respect to any Participant (or his or her beneficiaries), the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due the Participant (or his or her beneficiaries) under this Plan will be reduced by the actuarial value of the payments required to be made to such other person or entity.

(a) Actuarial value will be determined using the factors and methodology described in Section 3.06 below (in the case of lump sums) and using the actuarial assumptions in the underlying Pension Plan in all other cases.

(b) In dividing a Participant’s benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased actuarial cost to the Company.

2.12 **Funding.** Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to make benefit payments in the future. The Company may, but need not, fund benefits

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under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. It is the intention of the Company and Participants that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.

Any funding of benefits under this Plan will be in the Company’s sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.

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

2.14 Governing Law. This Plan shall be governed by the law of the State of Delaware, except to the extent superseded by federal law.

2.15 Actions by Company and Claims Procedures. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Board of Directors or its delegate. The Board of Directors may by written resolution delegate any of the Company’s powers under the Plan and any such delegations may provide for subdelegations, also by written resolution.

The Company’s standardized “Huntington Ingalls Industries Nonqualified Retirement Plans Claims and Appeals Procedures” shall apply in handling claims and appeals under this Plan.

2.16 Plan Representatives. Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.

2.17 Number. The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.
ARTICLE III
Lump Sum Election

This Article only applies with respect to Grandfathered Amounts. See Appendix 1 and Appendix 2 for the distribution rules that apply to other benefits earned under the Plan.

3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.05, this Article does not apply to employees in cases where benefits under a particular Program are automatically payable in lump sum form under Article II. This Article will not apply if a particular Program so provides.

3.02 Election. Participants may elect to have their benefits paid in the form of a single lump sum under this Section.

(a) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—

   (1) Benefits payable to the Participant during his or her lifetime, and

   (2) Survivor benefits (if any) payable to the Participant’s beneficiary, including preretirement death benefits (if any) payable to the Participant’s spouse.

(b) An election does not become effective until the earlier of:

   (1) the Participant’s Termination of Employment, or

   (2) the Participant’s death.

(c) Before the election becomes effective, it may be revoked.

(d) If a Participant does not have a Termination of Employment within 60 days after making an election, the election will never take effect.

(e) An election may only be made once. If it fails to become effective after 60 days or is revoked before becoming effective, it cannot be made again at a later time.

(f) After a Participant has a Termination of Employment, no election can be made.

(g) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits which may be due the spouse.

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Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.

3.03 Lump Sum—Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.02 has a Termination of Employment after he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

(a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:

1) in the case of a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant’s life and ceasing upon the Participant’s death should he or she die before the 12 months elapse, or

2) in the case of a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form—

   A) with the survivor benefit equal to 50% of the Participant’s benefit;

   B) with the Participant’s spouse as the survivor annuitant;

   C) determined by using the contingent annuitant option factors used to convert straight life annuities to 50% joint and survivor annuities under the Huntington Ingalls Industries Pension Plan; and

   D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.

(b) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.

(c) No lump sum payment will be made if:

1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
(2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.

(d) A lump sum will be payable to a Participant’s spouse as of the first of the month following the date of the Participant’s death, if:
   
   (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
   
   (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
   
   (3) the spouse survives to the first of the month following the date of the Participant’s death.

3.04 Lump Sum—Not Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.02 has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

   (a) No monthly benefit payments will be made.

   (b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant’s Termination of Employment.

   (c) A lump sum will be payable to a Participant’s spouse as of the first of the month following the date of the Participant’s death, if:

   (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;

   (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and

   (3) the spouse survives to the first of the month following the date of the Participant’s death.

   (d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.

3.05 Lump Sums with CIC Severance Plan Election. A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.
3.06 Calculation of Lump Sum.

(a) The factors to be used in calculating the lump sum are as follows:

1. **Interest**: Whichever of the following two rates that produces the smaller lump sum:
   - (A) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company’s annual report to shareholders for the year end immediately preceding the date of distribution, or
   - (B) the applicable interest rate that would be used to calculate a lump sum value for the benefit under the Pension Plans.

2. **Mortality**: the applicable mortality table, which would be used to calculate a lump sum value for the benefit under the Pension Plans.

3. **Increase in Section 415 Limit**: 4% per year.

4. **Age**: Age rounded to the nearest month on the date the lump sum is payable.

5. **Variable Unit Values**: Variable Unit Values are presumed not to increase for future periods after the date the lump sum is payable.

(b) The annuity to be converted to a lump sum will be the remaining annuity currently payable to the Participant or his or her beneficiary at the time the lump sum is due.

1. For example, assume a Participant is receiving benefit payments in the form of a 50% joint and survivor annuity.

2. If the Participant and the survivor annuitant are both still alive at the time the lump sum payment is due, the present value calculation will be based on the remaining benefits that would be paid to both the Participant and the survivor in the annuity form.

3. If only the survivor is alive, the calculation will be based solely on the remaining 50% survivor benefits that would be paid to the survivor.

4. If only the Participant is alive, the calculation will be based solely on the remaining benefits that would be paid to the Participant.
(5) In the case of a Participant who dies prior to commencement of benefits under this Plan so that only a preretirement surviving spouse benefit (if any) is payable, the lump sum will be based solely on the value of the preretirement surviving spouse benefit.

(c) In the case of a lump-sum under Section 3.05 (related to lump sums with a CIC Severance Plan election), the lump-sum amount will be calculated as described in that section and the rules of this Section 3.06 are not used.

3.07 Spousal consent. Spousal consent, as required for elections as described above, need not be obtained if the Company determines that there is no spouse or the spouse cannot be located.

* * *

IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer on this _____ day of ____________, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ________________________________

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This Appendix 1 provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

1.01 **Election.** Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the Participant’s selected benefit commencement date.

1.02 **2005 Commencements.** Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Participants commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Participant.

(a) **Key Employees.** A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee’s date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.

(b) **Lump Sum Option.** During 2005, a temporary immediate lump sum feature shall be available as follows:

(i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a Participant must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;  

(ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and  

(iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan’s procedures for calculating lump sums as of December 31, 2004.
1.03 **2006 and 2007 Commencements.** Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Participant’s benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Participant’s benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).
APPENDIX 2 — POST 2007
DISTRIBUTION OF 409A AMOUNTS

The provisions of this Appendix 2 shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Articles II and III, and Appendix 1 addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

2.01 Time of Distribution. Subject to the special rules provided in this Appendix 2, distributions to a Participant of his vested retirement benefit shall commence as of the Payment Date.

2.02 Special Rule for Key Employees. If a Participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the Participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Participant’s death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant’s Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Huntington Ingalls Industries Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).

2.03 Forms of Distribution. Subject to the special rules provided in this Appendix 2, a Participant’s vested retirement benefit shall be distributed in the form of a single life annuity. However, a Participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:

(a) 50% joint and survivor annuity
(b) 75% joint and survivor annuity
(c) 100% joint and survivor annuity.

If a Participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

2.04 Death. If a married Participant dies before the Payment Date, a death benefit will be payable to the Participant’s spouse commencing 90 days after the Participant’s death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a Participant’s vested retirement benefit based on a 100% joint
and survivor annuity determined on the Participant’s date of death. This benefit is also payable to a Participant’s domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

2.05 Actuarial Assumptions. Except as provided in Section 2.06 of this Appendix 2, all forms of payment under this Appendix 2 shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

- Interest Rate: 6%
- Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

2.06 Accelerated Lump Sum Payouts.

(a) Post-2007 Separations. Notwithstanding the provisions of this Appendix 2, for Participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a Participant’s retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to $25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section 2.02 of this Appendix 2, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Participant’s Separation from Service.

(b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix 2, for Participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a Participant’s retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Participant attains age 55, is less than or equal to $25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Participant attains age 55, but no earlier than January 1, 2008.

(c) Conflicts of Interest. The present value of a Participant’s vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.
(d) **Present Value Calculation.** The conversion of a Participant’s retirement benefit into a lump sum payment and the present value calculations under this Section 2.06 of this Appendix 2 shall be based on the actuarial assumptions in effect under the Huntington Ingalls Industries Pension Plan for purposes of calculating lump sum amounts, and will be based on the Participant’s immediate benefit if the Participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Participant will be eligible to receive at age 55.

2.07 **Effect of Early Taxation.** If the Participant’s benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Participant.

2.08 **Permitted Delays.** Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Company’s reasonable anticipation of one or more of the following events:

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

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

   provided, that any payment delayed pursuant to this Section 2.08 of this Appendix 2 shall be paid in accordance with Code section 409A.

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3.01 **Background.** The Company was a subsidiary of Northrop Grumman Corporation ("NGC") prior to the Distribution Date. On the Distribution Date, pursuant to an agreement between the Company and NGC, the liabilities for certain participants' benefits under the Northrop Grumman Supplemental Plan 2 (the "NGC Plan"), including Grandfathered Amounts, were transferred to the Company and to this Plan. The Participants whose benefits were transferred to this Plan on the Distribution Date and other Participants who were employees of the Affiliated Companies on the Distribution Date are referred to below as "NGC Participants." The rules in this Appendix shall apply to NGC Participants and certain other Plan terms notwithstanding any Plan provisions to the contrary.

3.02 **Plan Benefits.** NGC Participants who qualified as eligible employees under the NGC Plan on the Distribution Date shall be eligible employees under this Plan on such date. All service and compensation that would be taken into account for purposes of determining the amount of a NGC Participant’s benefit or his vested right to a benefit under the NGC Plan as of the Distribution Date shall be taken into account for the same purposes under this Plan.

3.03 **Distributions.** The terms of this Plan shall govern the distribution of all benefits payable to a NGC Participant or any other person with a right to receive such benefits, including amounts accrued under the NGC Plan and then transferred to this Plan.

3.04 **Termination and Key Employees.** For avoidance of doubt, no NGC Participant shall be treated as incurring a separation from service, termination of employment, retirement, or similar event for purposes of determining the right to a distribution (for amounts subject to Code section 409A or otherwise), vesting (including under sections G.04(e) and I.04(e)), benefits, or any other purpose under the Plan as a result of NGC’s distribution of Company shares to NGC’s shareholders. Also, the Company’s Key Employees shall be determined in accordance with the special rules for spin-offs under Treas. Reg. §1.409A-1(i)(6)(iii), or any successor thereto, for the period indicated in such regulation.

3.05 **Participant Elections.** All elections made by NGC Participants under the NGC Plan, including any payment elections or beneficiary designations, shall apply to the same effect under this Plan as if made under the terms of this Plan.

3.06 **References to Plan.** All references in this Plan to the "Plan" as in effect before the effective date of the Plan shall be read as references to the NGC Plan.

3.07 **Right to Benefits.** Prior to the Distribution Date, no individual will accrue benefits under the Plan. Further, with respect to any service or compensation used to determine a benefit provided or due under the NGC Plan at any time, no benefit will be due under the Plan except with respect to such service and compensation related to a liability transferred from the NGC Plan to the Plan on the Distribution Date. Additionally, on and after the Distribution Date, NGC

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and the NGC Plan, and any successors thereto shall have no further obligation or liability to any NGC Participant with respect to any benefit, amount, or right due under the NGC Plan.
APPENDIX B
TO THE HUNTINGTON INGALLS INDUSTRIES SUPPLEMENTAL PLAN 2

ERISA Supplemental Program 2

Appendix B to the Huntington Ingalls Industries Supplemental Plan 2 (the “Appendix”) is hereby adopted effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring.

B.01 Purpose. The purpose of the Program is:
(a) to restore benefits lost under the Pension Plans as a result of the compensation limit in Code section 401(a)(17), or any successor provision; and
(b) to include compensation deferred under a Deferred Compensation Plan and deferrals required in connection with participation under the Huntington Ingalls Industries Electronic Systems Executive Pension Plan.

B.02 Eligibility. An employee of the Company, other than Charles H. Noski, is eligible to receive a benefit under this Program if he or she:
(a) retires on or after January 1, 1989;
(b) has vested in Pension Plan benefits that are reduced because of one or both of the following:
   (1) the Code section 401(a)(17) limit on compensation; or
   (2) participation in a Deferred Compensation Plan.

B.03 Amount of Benefit.
(a) The benefit payable under this Program with respect to a Participant who commences benefits during his or her lifetime will equal the amounts described in (1) through (3) below.
   (1) Cash Balance Piece. Effective for periods after June 30, 2003, a Participant whose retirement benefit is determined under the terms of a Cash Balance Plan is credited under this Program with Benefit Credits (as defined under the Participant’s Cash Balance Plan) he or she would have received:
      (A) but for the restrictions of Code sections 401(a)(17) or 415, as those limits are described by the applicable Cash Balance Plan; and
(B) but for the fact the Participant made deferrals to a Deferred Compensation Plan.

For purposes of (B), the Benefit Credits earned are credited in accordance with the terms of the Cash Balance Plan applicable to Eligible Pay in excess of the Social Security Wage Base and any compensation deferred is only treated as compensation for benefit calculation purposes under this Program in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.

(2) Historical and Transition Piece. Effective for periods prior to July 1, 2003 the Participant is credited with the retirement benefit, if any, that would have been payable under the terms of the Pension Plan:

(A) but for the restrictions of Code sections 401(a)(17) or 415, as those limits are described by the applicable Pension Plan; and

(B) but for the fact that the Participant deferred compensation under either a Deferred Compensation Plan or in connection with the Northrop Grumman Electronic Systems Executive Pension Plan.

For purposes of (B), any compensation deferred is only treated as compensation for benefit calculation purposes under this Program in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.

(3) For Participants whose employment ceases after 2005, all Plan Years after 1996 (not just the last ten) shall be considered in determining the highest three years of eligible pay for purposes of calculating benefit amounts. All benefits resulting from this change in determining the highest three years of eligible pay shall be subject to Code section 409A.

(b) The benefit payable under this Program will be reduced by the combined amounts of Pension Plan Benefits and the Huntington Ingalls Industries ERISA Supplemental Plan benefits attributable to the applicable Pension Plan.

(c) Notwithstanding any other provision of the Program, in accordance with Section G.05, a Participant’s total accrued benefits under all plans, programs, and arrangements in which he or she participates, including the benefit accrued under Section B.03, may not exceed 60% of his or her Final Average Salary (as defined in Section G.02(c)), reduced for early retirement using the factors in Section G.09. If this limit is exceeded, the Participant’s accrued benefit under Appendix F or G, whichever is applicable, will be reduced first, and the Participant’s accrued benefit under this Program will then be reduced to the extent necessary to satisfy the limit.

(d) Minimum Normal Retirement Benefits for Designated Participants.
(1) “Minimum Normal Retirement Benefits for Designated Participants” are benefits provided only in the Pension Plan appendices (i.e., benefits in excess of the benefits provided by other portions of the Pension Plans).

(A) These extra benefits are meant to partially restore benefits lost because of Code section 401(a)(17).

(B) Therefore, they are not included in the “retirement benefit” in (a), but they are included for purposes of the offset in (b).

(2) Example. An employee is initially entitled to an $85,000 annual benefit under the Pension Plans. The employee would be entitled, but for section 401(a)(17), to a $100,000 annual benefit under the Pension Plans, so that $15,000 is payable under this Program. The Company then adds the minimum normal retirement benefit appendices under the Pension Plans, which are intended to pay all or a portion of the benefits previously payable by this Program under the Pension Plans instead. Assume this results in the employee being entitled to an additional $10,000 annual benefit under the appendices to the Pension Plans, so that the Pension Plans now pay a total of $95,000. This Program restores to the employee only the difference between $100,000 and $95,000, or a $5,000 annual benefit.

(e) Benefits under this Program will only be paid to supplement benefit payments actually made from a Pension Plan. If benefits are not payable under a Pension Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Program with respect to such Pension Plan.

(f) The following shall not be considered as compensation for purposes of determining the amount of any benefit under the Program:

(1) any payment authorized by the Compensation Committee that is (1) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Plan (AIP) for a given year, and (2) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, and

(2) any award payment under any Huntington Ingalls Industries long-term incentive cash plan.
Preretirement Surviving Spouse Benefit.

(a) Preretirement surviving spouse benefits will be payable under this Program on behalf of a Participant if such Participant’s surviving spouse is eligible for benefits payable from a Pension Plan.

(b) The benefit payable will be:

(1) for periods after June 30, 2003, the amount which would have been payable under the Cash Balance Plan:

   (A) but for the restrictions of Code sections 401(a)(17) and 415 (or any successor sections), as those limits are described by the applicable Cash Balance Plan; and

   (B) but for the fact that the Participant deferred compensation under a Deferred Compensation Plan (with Benefit Credits determined by reference to amounts exceeding the Social Security Wage Base); and

(2) for periods prior to July 1, 2003, the amount which would have been payable under the Pension Plan:

   (A) but for the restrictions of Code sections 401(a)(17) and 415 (or any successor sections), as those limits are described by the applicable Pension Plan; and

   (B) but for the fact that the Participant deferred compensation under either a Deferred Compensation Plan or in connection with the Northrop Grumman Electronic Systems Executive Pension Plan.

(3) For Participants whose employment ceases after 2005, all Plan Years after 1996 (not just the last ten) shall be considered in determining the highest three years of eligible pay for purposes of calculating benefit amounts. All benefits resulting from this change in determining the highest three years of eligible pay shall be subject to Code section 409A.

(c) For purposes of paragraph (b)(2) above, any compensation deferred will only be treated as compensation for benefit calculation purposes under this Program in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.

(d) The benefit payable under this Program will be reduced by the combined amounts of the Pension Plan Benefits and the Huntington Ingalls Industries ERISA Supplemental Plan benefits attributable to the applicable Pension Plan.

(e) No benefit will be payable under this Program with respect to a spouse after the death of that spouse.
The following shall not be considered as compensation for purposes of determining the amount of any benefit under the Program:

1. any payment authorized by the Compensation Committee that is (1) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Plan (AIP) for a given year, and (2) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, and

2. any award payment under any Huntington Ingalls Industries long-term incentive cash plan.

B.05 Plan Termination. No further benefits may be earned under this Program with respect to a particular Pension Plan after the termination of such Pension Plan.

B.06 Pension Plan Benefits. For purposes of this Appendix, the term “Pension Plan Benefits” generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Pension Plan. However, this Program is only intended to remedy pension reductions caused by the operation of section 401(a)(17) and not reductions caused for any other reason. In those instances where pension benefits are reduced for some other reason, the term “Pension Plan Benefits” shall be deemed to mean the benefits that actually would have been payable but for such other reason.

Examples of such other reasons include, but are not limited to, the following:

(a) A reduction in pension benefits as a result of a distress termination (as described in ERISA § 4041(c) or any comparable successor provision of law) of a Pension Plan. In such a case, the Pension Plan Benefits will be deemed to refer to the payments that would have been made from the Pension Plan had it terminated on a fully funded basis as a standard termination (as described in ERISA § 4041(b) or any comparable successor provision of law).

(b) A reduction of accrued benefits as permitted under Code section 412(c)(8), as amended, or any comparable successor provision of law.

(c) A reduction of pension benefits as a result of payment of all or a portion of a Participant’s benefits to a third party on behalf of or with respect to a Participant.

B.07 ISA Excess Plan Participants.

(a) Background. Effective as of the ISA Eligibility Date, all liabilities for benefits accrued after that date under the Northrop Grumman Integrated Systems & Aerostructures (ISA) Sector ERISA Excess Plan (the “ISA Plan”) are transferred to this Plan. This Section describes the treatment of those liabilities (“Transferred Liabilities”) and the Participants to whom those liabilities relate (“Transferred Participants”).

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The “ISA Eligibility Date” is July 1, 2000.

(b) **Transferred Participants.** This Section B.07 applies only to employees who: (1) were active participants in the ISA Plan as of the day before the ISA Eligibility Date; and (2) accrued a benefit under the terms of the ISA Plan on or after the ISA Eligibility Date.

(c) **Treatment of Transferred Liabilities.** The Transferred Liabilities consist of any post-ISA Eligibility Date accruals under Article III of the ISA Plan. Those liabilities are treated as if they were accrued under Section B.03 of this Plan. Other provisions of this Plan govern as provided below.

(d) **Distributions.** Distributions of benefits attributable to the Transferred Liabilities are generally made under Articles II and III of this Plan.

(e) **Other Provisions.** The Transferred Liabilities and the Transferred Participants are fully subject to Articles I-III and Appendix B of this Plan. The amount of the Transferred Liabilities is, however, determined under Article III of the ISA Plan.

**B.08 Grumman Excess Plan Spinoff.**

(a) **Background.** Effective as of the Grumman Spinoff Date, all liabilities for benefits accrued by Transferred Participants under the Northrop Grumman Excess Plan for the Grumman Pension Plan (the “Grumman Plan”) were transferred to this Plan. This Section describes the treatment of those liabilities (“Transferred Liabilities”) under this Plan.

The “Grumman Spinoff Date” is July 1, 2003.

(b) **Treatment of Transferred Liabilities.** The Transferred Liabilities will generally be treated under the Plan like any other benefits under B.03.

(c) **Transferred Participants.** The “Transferred Participants” are active employees who were eligible to participate in the Grumman Plan as of June 30, 2003. Grumman Plan benefits of individuals who terminated employment before July 1, 2003 remain subject to the Grumman Plan, and this Plan assumes no liabilities for those benefits.

(d) **Distributions.** Distributions of amounts corresponding to the Transferred Liabilities will generally be made under Articles II and III.

(e) **Other Provisions.** The Transferred Liabilities and the Transferred Participants are fully subject to Articles I-III and Appendix B.

* * *

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IN WITNESS WHEREOF, this Program is hereby executed by a duly authorized officer on this _____ day of_______, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By:  

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APPENDIX F
TO THE HUNTINGTON INGALLS INDUSTRIES SUPPLEMENTAL PLAN 2
CPC Supplemental Executive Retirement Program

Appendix F to the Huntington Ingalls Industries Supplemental Plan 2 (the “Appendix”) is hereby adopted effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring.

F.01 Purpose. The purpose of this Program is to give enhanced retirement benefits to eligible elected officers of the Company’s Corporate Policy Council. This Program is intended to supplement benefits that are otherwise available under the Qualified Plans.

F.02 Definitions and Construction.
   (a) Capitalized terms used in this Appendix that are not defined in this Appendix or Article I of the Plan are taken from the Qualified Plans and are intended to have the same meaning.
   (b) CPC Service.
      (1) Months of CPC Service will be determined under the rules of the Qualified Plans for determining Credited Service.
      (2) Only months of Credited Service after the commencement of a Participant’s tenure on the Corporate Policy Council will be counted.
      (3) Months of CPC Service will continue to be counted for a Participant until the earlier of (A) and (B):
         (A) The date the Participant ceases to earn benefit accrual service under either the Qualified Plans or some other defined benefit plan of the Affiliated Companies that is qualified under section 401(a) of the Code (“Successor Qualified Plan”).
         (B) Cessation of the officer’s membership on the Corporate Policy Council (whether because of termination of his membership or dissolution of the Council).
         (C) Examples: The following examples assume that the Participant continues to earn months of CPC Service under the Qualified Plans until termination of employment.
Example 1: Officer A terminates employment with the Affiliated Companies on March 31, 2004. At that time, he is still a member of the CPC. His service under this Program ceases to accrue on March 31, 2004.

Example 2: Officer B ceases to be a member of the CPC on December 31, 2005, though continuing to work for the Affiliated Companies after that date. His service under this Program ceases to accrue on December 31, 2005.

(4) If a Participant is transferred to a position with an Affiliated Company not covered by a Qualified Plan, CPC Service will be determined as the Credited Service under the Participant’s last Qualified Plan.

(A) If such a transfer occurs, the Participant will continue to earn deemed service credits as if he or she were still participating under the Qualified Plan.

(B) Those deemed service credits will not be considered as earned under the Qualified Plan for purposes of determining:

(i) benefits under the Qualified Plan or supplements to the Qualified Plan other than this Program, or

(ii) the offset under Section F.04(b) below, including the early retirement factors associated with the plans included in the offset.

(c) Eligible Pay. Subject to paragraphs (1) through (4) below, Eligible Pay will generally be determined under the rules of the Participant’s supplemental benefit plan (for section 401(a)(17) purposes).

(1) For periods during which a Participant did not participate in a supplemental benefit plan, Eligible Pay will be determined by reference to the applicable qualified defined benefit retirement plan under which the Participant benefits.

(A) Eligible Pay will be calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).

(B) Eligible Pay will include compensation deferred under a Deferred Compensation Plan and in connection with the Huntington Ingalls Industries Electronic Systems Executive Pension Plan.

(C) For purposes of (B), any compensation deferred will only be treated as compensation for Plan benefit calculation purposes in
the year(s) payment would otherwise have been made and not in the year(s) of actual payment.

(2) For periods during which a Participant did not participate in a supplemental benefit plan or a qualified defined benefit retirement plan, Eligible Pay will be his or her annualized base pay (determined in accordance with the Northrop Grumman Retirement Plan), plus any bonuses received.

(A) Annualized base pay is calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).

(B) Annualized base pay includes compensation deferred under a deferred compensation arrangement with those deferrals treated as compensation for Plan benefit calculation purposes in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.

(3) If a Participant experiences a Termination of Employment before December 31 of any year, Eligible Pay for the year in which the Participant’s Termination of Employment occurs is determined in accordance with the Standard Annualization Procedure in Article 2 of the Standard Definitions and Procedures for Certain Huntington Ingalls Industries Retirement Plans.

(4) The following shall not be considered as Eligible Pay for purposes of determining the amount of any benefit under the Program:

(A) any payment authorized by the Compensation Committee that is (1) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Plan (AIP) for a given year, and (2) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, and

(B) any award payment under any Huntington Ingalls Industries long-term incentive cash plan.

(d) Final Average Salary will mean the Participant’s average Eligible Pay for the highest three of the last ten consecutive Plan Years. For this purpose, years will be deemed to be consecutive even though a break in service year(s) intervenes. Notwithstanding the foregoing, for Participants whose employment ceases after 2005, all Plan Years after 1996 (not just the last ten) shall be considered in determining the highest three years of Eligible Pay. All benefits resulting from this change in determining the highest three years of Eligible Pay shall be subject to Code section 409A.
(e) The benefits under this Program are designed to supplement benefits under the Qualified Plans and are therefore to be construed utilizing the same principles and benefit calculation methodologies applicable under the Qualified Plans except where expressly modified.

(f) Benefits under this Program will be calculated without regard to the limits in sections 401(a)(17) and 415 of the Code.

F.03 Eligibility. Eligibility for benefits under this Program will be limited to those elected officers of the Company’s Corporate Policy Council, other than Charles H. Noski, designated as “Participants” by the Company’s Board of Directors or Compensation Committee. No Participant will be entitled to any benefits under this Appendix F until he or she becomes Vested under the Qualified Plans, except to the extent provided in Section F.08.

No individuals shall become eligible to participate in the Program after the Distribution Date.

F.04 Benefit Amount. A Participant’s total accrued benefit under this Program is his or her gross benefit under (a), reduced by (b) (as modified by (c)), and adjusted under (d). The benefit calculated under this Section F.04 will be subject to the benefit limit under Section F.05.

(a) A Participant’s gross annual benefit under this Program will equal 3.33% x Final Average Salary x months of CPC Service ÷ 12.

   Effective July 1, 2009, a Participant’s gross annual benefit under this Program will equal the sum of (A), (B) and (C) below:

   (A) 3.33% x Final Average Salary x months of CPC Service up to 120 months ÷ 12,

   (B) 1.50% x Final Average Salary x months of CPC Service in excess of 120 months up to 240 months ÷ 12, and

   (C) 1.00% x Final Average Salary x months of CPC Service in excess of 240 ÷ 12.

Notwithstanding the foregoing, if a Participant had 120 months or more of CPC Service on July 1, 2009, his gross annual benefit under this Program will equal his gross annual benefit under this Program on June 30, 2009 plus accruals in accordance with (B) and (C) above based on CPC Service after June 30, 2009.

(1) The benefit payable is a single, straight life annuity commencing on the Participant’s Normal Retirement Date. The form of benefit and timing of commencement will be determined under Section F.06.

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(2) If a Participant’s benefit is paid under this Program before his Normal Retirement Date, the gross benefit will be adjusted for early commencement in accordance with Section G.04(c).

(b) The gross benefit under (a) above (multiplied by any applicable early retirement factor) is reduced by the retirement benefits the participant is entitled to receive (including all early retirement subsidies, supplements, and other such benefits) under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified (but not contributory or defined contribution plans, programs, or arrangements).

(c) For purposes of the offset adjustment in subsection (b):

(1) The Participant’s gross benefit under subsection (a) will be reduced only by the benefits accrued under the plans described in (b) for the period during which the Participant earns CPC Service.

   (A) No offset will be made for accruals earned before (or after) participation in this Program.

   (B) Offsets will be made for benefits accrued under any plan while a Participant:

      (i) is employed by the Affiliated Companies; or

      (ii) was employed by a company before it became an Affiliated Company.

   (C) The offset under (b) includes any benefit enhancements under change-in-control Special Agreements (including enhancements for age and service) that Participants have entered into with the Company (“Special Agreements”).

   (D) The offset under (b) does not include:

      (i) benefits accrued under the Supplemental Retirement Income Program for Senior Executives described in Appendix A to the Northrop Grumman Supplemental Plan 2; or


(2) If a Participant’s benefit under this Program commences upon reaching age 65, benefits under all the plans and programs described in (b) above will be compared on the basis of a single, straight life annuity commencing at age 65 using the assumptions in Section F.09.
(3) If a Participant’s benefit under this Program commences before age 65, benefits under this Program will be offset for the plans described in (b) above by converting the benefits paid or payable from those plans to an actuarially equivalent single life annuity benefit commencing upon retirement. For this purpose, the benefit will be converted to an early retirement benefit under each applicable plan’s terms and further adjusted, if necessary, for different normal forms of benefits or different commencement dates using the actuarial assumptions in Section F.09.

(d) A Participant’s benefit under this Program will be no less than the benefit that would have been accrued under Appendix G had the Participant been eligible to participate in that Program.

(1) If the net benefit calculated under Appendix G would be greater than the benefit determined in accordance with Sections F.04(a) through (c), the Participant will receive an additional amount under this Program equal to the difference between the net benefit calculated under Appendix G and the benefit calculated under Sections F.04(a) through (c).

(2) The above comparison will be made following the application of the applicable early retirement factors and offset adjustments under this Program and Appendix G.

F.05 Benefit Limit. A Participant’s total accrued benefits under all plans, programs, and arrangements in which he or she participates, including the benefit accrued under Section F.04 and all plans included in Section F.04(b), may not exceed 60% of his or her Final Average Salary. If this limit is exceeded, the Participant’s benefit accrued under this Program will be reduced to the extent necessary to satisfy the limit.

(a) The accrued benefits a Participant has earned under the plans included in Section F.04(b) that are taken into account for purposes of this Section are not limited to those benefits accrued during the time he or she participated in this Program (as described in Section F.04(c)(1)), but instead will count all service with the Affiliated Companies.

(b) If a participant has previously received a distribution from one of the plans included in Section F.04(b), that previously received benefit applies toward the limit in this Section.

(c) The Participant’s Final Average Salary is reduced for early retirement applying the factors in Section G.04(c).

(d) The limit in this Section may not be exceeded even after the benefits under this Program have been enhanced under any Special Agreements.
F.06 Payment of Benefits.

(a) Benefits will generally be paid in accordance with Section 2.03 of the Plan.

In addition to all other benefit forms otherwise available under this Program, effective as of January 1, 2004, a Participant may elect to have his or her benefits paid in the form of a 75% Joint and Survivor Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant’s spouse is still alive, a benefit equal to 75% of the Participant’s monthly benefit is paid to the spouse for the remainder of his or her life. If the spouse is not still alive when the Participant dies, no further payments are made. The determination of the benefit payable under this option will be made utilizing the factors for a 75% Joint and Survivor Option under the provisions of the Northrop Grumman Retirement Plan.

(b) Except as provided in subsection (c), benefits will commence as of the first day of the month following the Participant’s Termination of Employment or, if later, as of the date the Participant’s early retirement benefit commences under the Qualified Plans.

(c) If a Participant has a Termination of Employment because of Disability before the Participant is eligible for an early retirement benefit from a Qualified Plan, benefits may commence immediately, subject to adjustment for early commencement using the applicable factors and methodologies under Sections F.04(a)(2) and F.04(c)(3).

(d) If a Participant dies after commencement of benefits, any survivor benefits will be paid in accordance with the form of benefit selected by the Company. If a Participant dies prior to commencement of benefits, payment will be made under Section F.07.

The distribution rules under this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

F.07 Preretirement Death Benefits. If a Participant dies before benefits commence, preretirement surviving spouse benefits are payable under this Program if his or her surviving spouse is eligible for a qualified preretirement survivor annuity (as required under section 401(a)(11) of the Code) from a Qualified Plan.

(a) Amount and Form of Preretirement Death Benefit. A preretirement death benefit paid to a surviving spouse is the survivor benefit portion of a 100% joint-and-survivor annuity calculated using the survivor annuity factors under the Huntington Ingalls Industries Pension Plan in an amount determined as follows:

(1) First, the Participant’s gross benefit under Section F.04(a) will be calculated and reduced, as necessary, for early retirement using the factors in Section F.04(a)(2) and adjusted, as necessary, in accordance with Section F.04(d);
Second, the target preretirement death benefit under this Program will be calculated by applying the appropriate 100% joint-and-survivor annuity factor (as provided in the Huntington Ingalls Industries Pension Plan) to the amount determined in (1); and

Third, the target preretirement death benefit determined in (2) will be reduced by the preretirement death benefits, if any, payable under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified, that are otherwise included in the offsets described under Section F.04(b) such that the sum of the preretirement death benefit payments made to the surviving spouse under all plans, including this Program, will equal, at all times, the level of payments determined to be the target preretirement death benefit (subject to the benefit limit described in Section G.05(a)).

(b) Timing of Preretirement Death Benefit.

(1) Benefits commence as of the first day of the month following the death of the Participant, subject to adjustment for early commencement using the applicable factors under G.04(c).

(2) If there is a dispute as to whom payment is due, the Company may delay payment until the dispute is settled.

(c) No benefit is payable under this Program with respect to a spouse after the spouse dies.

The distribution rules under this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

F.08 Individual Arrangements. This Section applies to a Participant who has an individually-negotiated arrangement with the Company for supplemental retirement benefits.

(a) This Section is intended to coordinate the benefits under this Program with those of any individually-negotiated arrangement. Participants with such arrangements will be paid the better of the benefits under the arrangement or under Sections F.04 or F.07 (as limited by F.05).

(b) In no case will duplicate benefits be paid under this Program and such an individual arrangement. Any payments under this Program will be counted toward the Company’s obligations under an individual arrangement, and vice-versa.

(c) If the benefit under an individually-negotiated arrangement exceeds the one payable under this Program, then the individual benefit will be substituted as the benefit payable under this Program (even if it exceeds the limit under F.05).
To determine which benefit is greater, all benefits will be compared, subject to adjustment for early retirement using the applicable factors and methodologies under Sections F.04(a)(2) and F.04(c)(3).

For purposes of (d), the individually-negotiated benefit will be determined in accordance with all of its terms and conditions. Nothing in this Section is meant to alter any of those terms and conditions.

This Section does not apply to the Special Agreements.

F.09 Actuarial Assumptions: The following defined terms and actuarial assumptions will be used to the extent necessary to convert benefits to straight life annuity form commencing at the Participant’s Normal Retirement Date under Sections F.04 and F.08:

- **Interest**: Five percent (5%)  
- **Mortality**: The applicable mortality table which would be used to calculate a lump sum value for the benefit under the Qualified Plans.  
- **Increase in Code Section 415 Limit**: 2.8% per year.

Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after commencement of benefits.

F.10 Forfeiture of Benefits: Notwithstanding any other provision of this Program, this Section applies to a Participant’s total accrued benefit under this Program earned after 2010.

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

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

(1) If the Compensation Committee or its delegate determines that a Forfeiture Event has occurred, the relevant Participant may forfeit up to 100% of his or her total accrued benefit under this Program earned after 2010. The amount forfeited, if any, will be determined by the Compensation Committee or its delegate in its sole discretion, and may consist of all or a portion of the Program benefits earned after 2010 and not yet paid.

(2) Program benefits earned by a Participant after 2010 shall be deemed to constitute a proportionate share of each payment of benefits that is not a Grandfathered Amount for purposes of determining the portion of each such payment to be forfeited under subsection (1).

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

Coordination with 60% Benefit Limit. For purposes of applying the 60% of Final Average Salary benefit limit of Section F.05, or any other similar provision in other plans, programs and arrangements of the Affiliated Companies, such benefit limit will be applied as if no forfeiture occurred under this Section F.10.

Notice and Claims Procedure.

(1) The Company will provide timely notice to any Participant who incurs a forfeiture pursuant to this Section F.10. Any delay by the Company in providing such notice will not otherwise affect the amount or timing of any forfeiture determined by the Compensation Committee or its delegate.

(2) The procedures set forth in the Company’s standardized Huntington Ingalls Industries Nonqualified Plans Claims and Appeals Procedures (“Claims Procedures”) will apply to any claims and appeals arising out of or related to any forfeiture under this Section F.10, except as provided below:

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

(B) After a claimant has exhausted his remedies under the Claims Procedures, including the appeal stage, the claimant forgoes any right to file a civil action under ERISA section 502(a), but instead may present any claims arising out of or related to any forfeiture under this Section F.10 to final and binding arbitration in the manner described below.
A claimant must file a demand for arbitration no later than one year following a final decision on the appeal under the Claims Procedures. After such period, no claim for arbitration may be filed, and the decision becomes final. A claimant must deliver a demand for arbitration to the Company’s General Counsel.

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

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

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

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

The fees and expenses of the arbitrator will be borne equally by the claimant and the Company. Each side will be entitled to use a representative, including an attorney, at the arbitration. Each side will bear its own deposition, witness, expert, attorneys’ fees, and other expenses to the same extent as if the matter were being heard in court. If, however, any party prevails on a claim, which (if brought in court) affords the prevailing party attorneys’ fees and/or costs, then the arbitrator may award reasonable fees and/or costs to the prevailing party to the same extent as would apply in court. The arbitrator will resolve any dispute as to who is the prevailing party and as to the reasonableness of any fee or cost.

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

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

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

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

(f) Application. Should a Forfeiture Event occur, this Section F.10 is in addition to, and does not in any way limit, any other right or remedy of the Affiliated Companies, at law or otherwise, in connection with such Forfeiture Event.

* * *

IN WITNESS WHEREOF, this Program is hereby executed by a duly authorized officer on this _____ day of _____________, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ________________________________
APPENDIX G
TO THE HUNTINGTON INGALLS INDUSTRIES SUPPLEMENTAL PLAN 2
Officers Supplemental Executive Retirement Program

Appendix G to the Huntington Ingalls Industries Supplemental Plan 2 (the “Appendix”) is hereby adopted effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring.

G.01 Purpose. The purpose of this Program is to give enhanced retirement benefits to eligible officers of the Company. This Program is intended to supplement benefits that are otherwise available under the Qualified Plans.

G.02 Definitions and Construction.

(a) Capitalized terms used in this Appendix that are not defined in this Appendix or Article I of the Plan are taken from the Qualified Plans, and are intended to have the same meaning.

(b) Eligible Pay. Subject to paragraphs (1) through (5) below, Eligible Pay will generally be determined under the rules of the Participant’s supplemental benefit plan (for section 401(a)(17) purposes).

(1) For periods during which a Participant did not participate in a supplemental benefit plan, Eligible Pay will be determined by reference to the applicable qualified defined benefit retirement plan under which the Participant benefits.

(A) Eligible Pay will be calculated without regard to any otherwise applicable limitations under the Code, including section 401(a)(17).

(B) Eligible Pay will include compensation deferred under a Deferred Compensation Plan and in connection with the Huntington Ingalls Industries Electronic Systems Executive Pension Plan.

(C) For purposes of (B), any compensation deferred will only be treated as compensation for Plan benefit calculation purposes in the year(s) payment would otherwise have been made and not in the year(s) of actual payment.

(2) Special Rules for Certain Participants.
(A) Former Northrop Grumman Electronic Systems Executive Pension Plan Participants. For years prior to 2002, Eligible Pay is determined by reference to the Participant’s total base salary under the Northrop Grumman Electronic Systems Pension Plan plus any bonuses that were received or would have been received had the Participant not elected to have the amounts deferred under a deferred compensation arrangement. No compensation of any kind paid or otherwise earned while employed by an entity prior to that entity becoming an Affiliated Company will be included in the Participant’s Eligible Pay.

(B) Employees of Newport News Shipbuilding, Inc. For the period beginning on January 1, 1994 and ending December 31, 2003, Eligible Pay is determined by reference to the Participant’s total base salary plus any bonuses that were received or would have been received had the Participant not elected to have the amounts deferred under a deferred compensation arrangement.

(3) If a Participant experiences a Termination of Employment before December 31 of any year, Eligible Pay for the year in which the Participant’s Termination of Employment occurs is determined in accordance with the Standard Annualization Procedure in Article 2 of the Standard Definitions and Procedures for Certain Huntington Ingalls Industries Corporation Retirement Plans.

(4) The following shall not be considered as Eligible Pay for purposes of determining the amount of any benefit under the Program:

   (A) any payment authorized by the Compensation Committee that is (1) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Plan (AIP) for a given year, and (2) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, and

   (B) any award payment under any Huntington Ingalls Industries long-term incentive cash plan.

(5) Eligible Pay shall include amounts earned after a Participant attains age 65, provided any benefits based on such compensation shall be subject to Code section 409A.

(c) Final Average Salary for any Plan Year is the Participant’s average Eligible Pay for the highest three of the last ten consecutive Plan Years in which the Participant was an employee of an Affiliated Company and a participant in a qualified defined benefit retirement plan. For this purpose, years will be deemed to be consecutive even though a break in service year(s) intervenes.
Notwithstanding the foregoing, for Participants whose employment ceases after 2005, all Plan Years after 1996 (not just the last ten) shall be considered in determining the highest three years of Eligible Pay. All benefits resulting from this change in determining the highest three years of Eligible Pay shall be subject to Code section 409A.

(d) Months of Benefit Service.

(1) Months of Benefit Service will be determined under the rules of the Qualified Plans for determining Credited Service.

(2) Months of Benefit Service will continue to be counted for a Participant until the earlier of (A) or (B):

   (A) The date the Participant ceases to earn benefit accrual service under either the Qualified Plans or some other defined benefit plan of the Affiliated Companies that is qualified under section 401(a) of the Code (“Successor Qualified Plan”).

   (B) Cessation of the Participant’s status as an elected or appointed officer of the Company (except as otherwise provided in Section G.04(f)).

(3) If a Participant is transferred to a position with an Affiliated Company not covered by a Qualified Plan, Months of Benefit Service will be determined as the Credited Service in the Participant’s last Qualified Plan.

   (A) If such a transfer occurs, the Participant will continue to earn deemed service credits as if he or she were still participating under the Qualified Plan.

   (B) Those deemed service credits will not be considered as earned under the Qualified Plan for purposes of determining:

      (i) benefits under the Qualified Plan or supplements to the Qualified Plan other than this Program, or

      (ii) the offset under Section G.05 below, including the early retirement factors associated with the plans included in the offset.

(4) For Participants who become eligible to participate in the Program on or after March 10, 2006, Months of Benefit Service shall not include any time that counts as service under any portion of a plan spun out of the Company’s controlled group, if the service is no longer treated as benefit accrual service under a qualified plan in the Company’s controlled group.
(5) Months of Benefit Service shall continue to be earned after a Participant has attained age 65, provided that any benefits based on such service shall be subject to Code section 409A.

(e) The benefits under this Program are designed to supplement benefits under the Qualified Plans and are to be construed using the same principles and benefit calculation methodologies applicable under the Qualified Plans except where expressly modified in this Program.

(f) Benefits are calculated without regard to the limits in sections 401(a)(17) and 415 of the Code.

G.03 Eligibility. Except as otherwise provided in (a) through (f) below, eligibility for benefits under this Program is limited to elected or appointed officers of the Company, other than Charles H. Noski.

(a) Employees of Newport News Shipbuilding, Inc., or its successor, will be eligible to participate under this Program effective January 1, 2004.

(b) No employees of Vinnell Corporation, Component Technologies, or Premier America Credit Union are eligible for benefits under this Program.

(c) No Participant is entitled to any benefits under this Appendix G until he or she becomes Vested under the Qualified Plans, except to the extent provided otherwise in this Appendix G.

(d) No individual who is, was, or will be eligible to participate in and receive benefits under Appendix F of the Plan (the “CPC SERP”) is eligible to participate under this Program.

(e) Notwithstanding any other provisions of this Program to the contrary, elected and appointed officers of the Company’s Mission Systems and Space Technology Sectors will be eligible to participate under this Program effective as of January 1, 2005.

(f) After June 2008, the only employees who shall become eligible to participate in the Program shall be:

(1) individuals who become elected or appointed officers of the Company after June 2008 due to rehire or promotion, provided they have been and continue to be actively accruing benefits under a Company-sponsored qualified defined benefit pension plan, and

(2) any other individuals designated for participation in writing by the Vice President, Compensation, Benefits and International (as such title may be modified from time to time).
(a) A Participant’s annual Normal Retirement Benefit under this Program equals the sum of (1) through (3) below, subject to the limit described in Section G.05:

1. 2.0% x Final Average Salary x Months of Benefit Service up to 120 months ÷ 12
2. 1.5% x Final Average Salary x Months of Benefit Service in excess of 120 months up to 240 months ÷ 12
3. 1.0% x Final Average Salary x Months of Benefit Service in excess of 240 months up to 540 months ÷ 12

However, if an employee performs service during his or her career in covered positions under both this Appendix G and the CPC SERP: the employee’s entire benefit will be calculated under Section F.04 of the CPC SERP and payable under the terms of that program; all benefits accrued under this Program will be eliminated; and no amounts will be payable under this Appendix G.

(b) The total benefit payable is a single, straight life annuity commencing at age 65, assuming an annual benefit equal to the gross benefit under (a). The form of benefit and timing of commencement will be determined under Section G.06.

(c) If a Participant’s benefit is paid under this Program before age 65, the benefit will be adjusted as follows. The Early Retirement Benefit is a monthly benefit equal to the Normal Retirement Benefit reduced by the lesser of:

1. 1/12th of 2.5% for each calendar month the payment of benefits begins before age 65; or
2. 2.5% for each Benefit Point less than 85 where the Participant’s Benefit Points (truncated to reach a whole number) equal the sum of:
   (A) his or her age (computed to the nearest 1/12th of a year) at the annuity starting date and
   (B) 1/12th of his or her months of Credited Service under the applicable Qualified Plan (also computed to the nearest 1/12th of a year) as of the date his or her employment terminated.

A Participant’s Vesting Service and months of Credited Service earned under the Qualified Plans (or deemed earned in the event of a transfer) are used to determine whether the Early Retirement Benefit provisions apply and to calculate the early retirement reduction.

(d) Except as provided otherwise in this Appendix G, no benefit will be paid under this Program if a Participant experiences a Termination of Employment before (1)
attaining age 55 and completing 120 Months of Benefit Service, or (2) attaining age 65 and completing 60 Months of Benefit Service.

Notwithstanding any other provision of the Program to the contrary, a Participant who otherwise satisfies the requirements of this subsection (d) is not required to retire and commence benefits under this Program upon his or her Termination of Employment. This provision applies to Grandfathered Amounts only.

(e) A Participant shall be entitled to benefits notwithstanding the Participant’s failure to meet the requirements of Section G.04(d) if the following requirements are satisfied:

(1) the Participant has been involuntarily terminated without cause or terminated due to the divestiture of his business unit;

(2) the Participant has reached age 53 and completed 10 years of early retirement eligibility service, or has accumulated 75 points, as of the date of termination, all as determined under the terms of the Huntington Ingalls Industries Pension Plan; and

(3) the Participant is actively accruing benefits under the Program as of the date of termination.

If a Participant receives a notice of an involuntary termination and then transfers to another related entity instead of being involuntarily terminated, the Participant will not qualify for vesting under this subsection (e). If an involuntarily terminated Participant is rehired by the Company, vesting under this subsection (e) would not apply unless the Participant is subsequently terminated and meets the requirements described above.

All benefits payable pursuant to this subsection (e) shall be subject to reduction for early retirement as applicable under Section G.04(c). All benefits payable under this subsection (e) shall be subject to section 409A of the Code.

(f) The rules set forth in this Section G.04(f) shall apply in the event a Participant ceases to satisfy the eligibility requirements of Section G.03 (the “eligibility requirements”) because the Participant is no longer an elected or appointed officer of the Company:

(1) for purposes of calculating the Participant’s benefit amount pursuant to Section G.04(a), “Eligible Pay” and “Months of Benefit Service” shall not reflect amounts paid or service on or after the date the Participant ceases to satisfy the eligibility requirements, except that in the event the Participant subsequently satisfies the eligibility requirements, “Eligible Pay” and “Months of Benefit Service” shall reflect all pay and past service to the extent consistent with the terms of this Program in effect for newly eligible employees at the time the Participant satisfies the eligibility requirements for the second time;

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for purposes of applying the 60% limitation pursuant to Section G.05(a), “Eligible Pay” shall include amounts paid on or after the date the Participant ceases to satisfy the eligibility requirements;

(3) for purposes of applying the offset provision of Section G.05(b), benefits accrued under other plans shall reflect pay and service on or after the date the Participant ceases to satisfy the eligibility requirements;

(4) for purposes of applying Sections G.04(d) and G.04(e), service on or after the date the Participant ceases to satisfy the eligibility requirements shall continue to count as service, provided that if the Participant would not otherwise receive benefits if not for the application of this paragraph (4), all benefits shall be subject to section 409A of the Code;

(5) for purposes of applying the reduction for early retirement pursuant to Section G.04(c), service on or after the date the Participant ceases to satisfy the eligibility requirements shall continue to count as service.

G.05 Benefit Limit. Accruals under Section G.04 will be limited as provided in this Section.

(a) A Participant’s total accrued benefits under all plans, programs, and arrangements in which he or she participates, including the benefit accrued under Section G.04 and all plans included in Section G.05(b), may not exceed 60% of his or her Final Average Salary. If this limit is exceeded, the Participant’s benefit accrued under this Program will be reduced to the extent necessary to satisfy the limit.

(1) The Participant’s Final Average Salary will be reduced for early retirement applying the factors in Section G.04(c).

(2) The limit in this subsection may not be exceeded even after the benefits under this Program have been enhanced under any Special Agreements.

(b) The gross benefit calculated under Section G.04 above (multiplied by any applicable early retirement factor) is reduced by the retirement benefits the participant is entitled to receive (including all early retirement subsidies, supplements, and other such benefits) under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified (but not contributory or defined contribution plans, programs, or arrangements).

(c) For purposes of the offset in subsection (b):

(1) Offsets will be made:

(A) with respect to:
(i) benefits accrued under any plan while a Participant is employed by the Affiliated Companies; and
(ii) benefits accrued under any plan while a Participant was employed by a company before it became an Affiliated Company;

(B) with respect to any benefit enhancements under change-in-control Special Agreements (including enhancements for age and service) that Participants have entered into with the Company (“Special Agreements”); and

(C) without regard to:

(i) benefits accrued under the Supplemental Retirement Income Program for Senior Executives described in Appendix A to the Northrop Grumman Supplemental Plan 2;
(ii) Part II benefits under the HII Litton Industries, Inc. Restoration Plan and HII Litton Industries, Inc. Restoration Plan II; or
(iii) benefits accrued under the Northrop Grumman Pilot’s Transition Plan.

(2) If a Participant’s benefit under this Program commences upon reaching age 65, the Participant’s benefits under all the plans and programs described in (b) above will be compared on the basis of a single, straight life annuity commencing at age 65 using the assumptions stated in Section G.09.

(3) If a Participant’s benefit under this Program commences before age 65, benefits under this Program will be offset for the plans described in (b) above by converting the benefits paid or payable from those plans to an actuarially equivalent single life annuity benefit commencing upon retirement. For this purpose, the benefit will be converted to an early retirement benefit under each applicable plan’s terms and further adjusted, if necessary, for different normal forms of benefits or different commencement dates using the actuarial assumptions of Section G.09.

(4) If a Participant previously received a distribution under one of the plans described in (b) above for a period of service that counts as Months of Benefit Service, that previously received benefit applies toward the limit under this Section.

(e) Example: A Participant elects to receive an early retirement benefit at age 55 after completing 240 Months of Benefit Service with Final Average Salary equal to
$250,000. The Participant has accrued monthly benefits under the Northrop Grumman Electronic Systems Pension Plan (the “ES Plan”) equal to $2,550 payable at age 55, the Huntington Ingalls Industries ERISA Supplemental Program 2 (“ERISA 2”) equal to $600 payable at age 55, and the Huntington Ingalls Industries Electronic Systems Executive Pension Plan (the “ES EPP”) equal to $600 payable at age 65.

The Participant’s pre-offset benefit under this Program, calculated in accordance with Section G.04, equals 35% of the Participant’s Final Average Salary ($250,000) x 75% to account for the early retirement reduction under Section G.04(c). This results in a monthly gross benefit under this Program, before the benefit limit is applied, equal to $5,468.75. The Participant’s total net benefit is calculated, taking into account the offset under (b) above, by reducing the gross benefit by the following:

1. the $2,550 monthly benefit under the ES Plan payable at age 55, subject to that plan’s conversion factors; and
2. the $600 ERISA 2 early retirement single life annuity payable at age 55.

No offset results from the ES EPP, however, because the Participant is not eligible to receive a benefit at age 55 under that plan.

This results in a monthly gross benefit under this Program equal to $2,318.75.

### G.06 Payment of Benefits

(a) Benefits will generally be paid in accordance with Section 2.03 of the Plan.

In addition to all other benefit forms otherwise available under this Program, effective as of January 1, 2004, a Participant may elect to have his or her benefits paid in the form of a 75% Joint and Survivor Option. Under this option, the Participant is paid a reduced monthly benefit for life and then, if the Participant’s spouse is still alive, a benefit equal to 75% of the Participant’s monthly benefit is paid to the spouse for the remainder of his or her life. If the spouse is not still alive when the Participant dies, no further payments are made. The determination of the benefit payable under this option will be made utilizing the factors for a 75% Joint and Survivor Option under the provisions of the Northrop Grumman Retirement Plan.

(b) Except as provided in (c), benefits will commence as of the first day of the month following the Participant’s Termination of Employment or, if later, as of the date the Participant’s early retirement benefit commences under the Qualified Plans.

(c) If a Participant has a Termination of Employment because of disability before the Participant is eligible for an early retirement benefit from a Qualified Plan, benefits may commence immediately, subject to adjustment for early
commencement using the applicable factors and methodologies under Sections G.04(c) and G.05(c)(3).

(d) If a Participant dies after commencement of benefits, any survivor benefits will be paid in accordance with the form of benefit selected by the Company. If a Participant dies prior to commencement of benefits, payment will be made under Section G.07.

The distribution rules under this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

G.07 Preretirement Death Benefits. If a Participant dies before benefits commence, preretirement surviving spouse benefits are payable under this Program on behalf of the Participant if his or her surviving spouse is eligible for a qualified preretirement survivor annuity (as required under section 401(a)(11) of the Code) from a Qualified Plan.

(a) Amount and Form of Preretirement Death Benefit. A preretirement death benefit paid to a surviving spouse is the survivor benefit paid to a surviving spouse is the survivor benefit portion of a 100% joint and survivor annuity calculated using the survivor annuity factors under the Huntington Ingalls Industries Pension Plan in an amount determined as follows:

(1) First, the Participant’s gross benefit under Section G.04(a) will be calculated and reduced, as necessary, for early retirement using the factors in Section G.04(c);

(2) Second, the target preretirement death benefit under this Program will be calculated by applying the appropriate 100% joint-and-survivor annuity factor (as provided in the Huntington Ingalls Industries Pension Plan) to the amount determined in (1); and

(3) Third, the target preretirement death benefit determined in (2) will be reduced by the preretirement death benefits, if any, payable under all defined benefit retirement plans, programs, and arrangements maintained by the Affiliated Companies, whether qualified or nonqualified, that are otherwise included in the offsets described under Section G.05(b) such that the sum of the preretirement death benefit payments made to the surviving spouse under all plans, including this Program, will equal, at all times, the level of payments determined to be the target preretirement death benefit (subject to the benefit limit described in Section G.05(a)).

(b) Timing of Preretirement Death Benefit.

(1) Benefits commence as of the first day of the month following the death of the Participant, subject to adjustment for early commencement using the applicable factors under G.04(c).
(2) If there is a dispute as to whom payment is due, the Company may delay payment until the dispute is settled.

(c) No benefit is payable under this Program with respect to a spouse after the spouse dies.

The distribution rules under this Section only apply to Grandfathered Amounts. See Appendix 1 and Appendix 2 for distribution rules that apply to other Plan benefits.

G.08 Individual Arrangements. This Section applies to a Participant who has an individually-negotiated arrangement with the Company for supplemental retirement pension benefits. Notwithstanding any other provision to the contrary, this Section does not apply to any individually-negotiated arrangements between a Participant and the Company concerning severance payments.

(a) This Section is intended to coordinate the benefits under this Program with those of any individually-negotiated arrangement. Participants with such arrangements will be paid the better of the benefits under the arrangement or under Sections G.04 or G.07 (as limited by G.05).

(b) In no case will duplicate benefits be paid under this Program and such an individual arrangement. Any payments under this Program will be counted toward the Company’s obligations under an individual arrangement, and vice-versa.

(c) If the benefit under an individually-negotiated arrangement exceeds the one payable under this Program, then the individual benefit will be substituted as the benefit payable under this Program (even if it exceeds the limit under G.05).

(d) To determine which benefit is greater, all benefits will be compared, subject to adjustment for early retirement using the applicable factors and methodologies under Sections G.04(c) and G.05(c)(3).

(e) For purposes of (d), the individually-negotiated benefit will be determined in accordance with all of its terms and conditions. Nothing in this Section is meant to alter any of those terms and conditions.

(f) This Section does not apply to the Special Agreements.

G.09 Actuarial Assumptions. The following defined terms and actuarial assumptions will be used to the extent necessary under Sections G.05 and G.08 to convert benefits to straight life annuity form commencing upon the Participant reaching age 65:

Interest: Five percent (5%)

Mortality: The applicable mortality table which would be used to calculate a lump sum value for the benefit under the Qualified Plans.

Increase in Code Section 415 Limit: 2.8% per year.
Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after commencement of benefit.

G.10 Forfeiture of Benefits. Notwithstanding any other provision of this Program, this Section applies to a Participant’s total accrued benefit under this Program earned after 2010.

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

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

(c) Forfeiture of Benefits.

(1) If the Compensation Committee or its delegate determines that a Forfeiture Event has occurred, the relevant Participant may forfeit up to 100% of his or her total accrued benefit under this Program earned after 2010. The amount forfeited, if any, will be determined by the Compensation Committee or its delegate in its sole discretion, and may consist of all or a portion of the Program benefits earned after 2010 and not yet paid.

(2) Program benefits earned by a Participant after 2010 shall be deemed to constitute a proportionate share of each payment of benefits that is not a Grandfathered Amount for purposes of determining the portion of each such payment to be forfeited under subsection (1).

(3) Any forfeiture pursuant to this Section will also apply with respect to survivor benefits or benefits assigned under a Qualified Domestic Relations Order.
(d) **Coordination with 60% Benefit Limit.** For purposes of applying the 60% of Final Average Salary benefit limit of Section G.05, or any other similar provision in other plans, programs and arrangements of the Affiliated Companies, such benefit limit will be applied as if no forfeiture occurred under this Section G.10.

(e) **Notice and Claims Procedure.**

(1) The Company will provide timely notice to any Participant who incurs a forfeiture pursuant to this Section G.10. Any delay by the Company in providing such notice will not otherwise affect the amount or timing of any forfeiture determined by the Compensation Committee or its delegate.

(2) The procedures set forth in the Company’s standardized Huntington Ingalls Industries Nonqualified Plans Claims and Appeals Procedures (“Claims Procedures”) will apply to any claims and appeals arising out of or related to any forfeiture under this Section G.10, except as provided below:

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

(B) After a claimant has exhausted his remedies under the Claims Procedures, including the appeal stage, the claimant forgoes any right to file a civil action under ERISA section 502(a), but instead may present any claims arising out of or related to any forfeiture under this Section G.10 to final and binding arbitration in the manner described below:

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

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

(iii) The parties will confer to identify a mutually acceptable arbitrator. If the parties are unable to agree on an arbitrator, the parties will request a list of proposed arbitrators from JAMS and:
(a) If there is an arbitrator on the list acceptable to both parties, that person will be selected. If there is more than one arbitrator on the list acceptable to both parties, each party will rank each arbitrator in order of preference, and the arbitrator with the highest combined ranking will be selected.

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

(iv) The fees and expenses of the arbitrator will be borne equally by the claimant and the Company. Each side will be entitled to use a representative, including an attorney, at the arbitration. Each side will bear its own deposition, witness, expert, attorneys’ fees, and other expenses to the same extent as if the matter were being heard in court. If, however, any party prevails on a claim, which (if brought in court) affords the prevailing party attorneys’ fees and/or costs, then the arbitrator may award reasonable fees and/or costs to the prevailing party to the same extent as would apply in court. The arbitrator will resolve any dispute as to who is the prevailing party and as to the reasonableness of any fee or cost.

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

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

(vi) The arbitrator shall issue a written opinion to the parties stating the essential findings and conclusions upon which the arbitrator’s award is based. The decision of the arbitrator will be final and binding upon the claimant and the Company. A reviewing court may only confirm, correct, or vacate an award in accordance with the

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

(f) **Application.** Should a Forfeiture Event occur, this Section G.10 is in addition to, and does not in any way limit, any other right or remedy of the Affiliated Companies, at law or otherwise, in connection with such Forfeiture Event.

**G.11 Grumman SRP Participants.** The following special rules shall apply to Participants who are entitled to benefits under the Northrop Grumman Corporation Supplemental Retirement Plan (the “SRP”). Any additional accrued benefits resulting from these special rules shall be subject to Code Section 409A.

(a) The offset provided for in Section G.05(b) related to an SRP benefit shall be based on the amount payable under the 15-year certain payment form in the SRP, not the actuarially equivalent single life annuity amount.

(b) The offset for the SRP amount shall be applied after the benefit under this Program has been converted into any optional form of payment elected.

(c) When payments cease under the SRP after 15 years, the annual benefit under this Program shall increase by the amount of the annual benefit that was being paid under the SRP.

**G.12 TASC Participants.** Participants who are actively employed in a TASC Entity: 254 or 255 on the date the entities are transferred to an unrelated buyer (“TASC Closing Date”) will be 100% vested in their benefit under the Program on the TASC Closing Date. No pay or service after the TASC Closing Date will count for purposes of determining the amount of such a Participant’s benefit under the Program. The offsets that apply to a Participant’s benefit under Section G.05(b) shall be determined on the date the Participant’s benefits payments commence under the Program. All benefits that become vested under this Section G.12 shall be subject to section 409A of the Code.

* * *

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IN WITNESS WHEREOF, this Program is hereby executed by a duly authorized officer on this _____ day of ________, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ______________________________

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INTRODUCTION

The Huntington Ingalls Industries ERISA Supplemental Plan (the “Plan”) is hereby adopted effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

See Appendix C for special rules related to the spin-off of the Company from Northrop Grumman Corporation.
ARTICLE I
Definitions

For purposes of the Plan, the following terms, when capitalized, will have the following meanings:

1.01 **Affiliated Companies.** The Company and any other entity related to the Company under the rules of section 414 of the Code. The Affiliated Companies include Huntington Ingalls Industries, Inc. and its 80%-owned subsidiaries and may include other entities as well.

1.02 **CIC Plans.** Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan.

1.03 **Code.** The Internal Revenue Code of 1986, as amended.

1.04 **Company.** The Company as designated in the Pension Plans.

1.05 **Grandfathered Amounts.** Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.

1.06 **Key Employee.** An employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (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 twelve (12) month period commencing on April 1 of the following year.

1.07 **Participant.** Any employee who (a) is eligible for benefits under one or both Pension Plans, (b) meets the eligibility requirements of Section 2.02 of this Plan and (c) and has not received full payment under the Plan.

1.08 **Payment Date.** The 1st of the month coincident with or following the later of (a) the date the Participant attains age 55, or (b) the date the Participant Separates from Service.

1.09 **Plan.** The Huntington Ingalls Industries ERISA Supplemental Plan.

1.10 **Pension Plan Benefits.** This term is defined in Section 2.08 of this Plan.

1.11 **Pension Plan and Pension Plans.** Any of the following:

(a) The Northrop Grumman Retirement Plan
The Northrop Grumman Retirement Plan — Rolling Meadows Site
The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
The Northrop Grumman Electronics Systems — Space Division Salaried Employees’ Pension Plan (effective as of the Aerojet Closing Date)
The Northrop Grumman Electronics Systems — Space Division Union Employees’ Pension Plan (effective as of the Aerojet Closing Date)

“Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.

1.12 Separation from Service or Separates from Service. A “separation from service” within the meaning of Code section 409A.
1.13 Termination of Employment. Complete termination of employment with the Affiliated Companies.
   (a) If a Participant leaves one Affiliated Company to go to work for another, he or she will not have a Termination of Employment.
   (b) A Participant will have a Termination of Employment if he or she leaves the Affiliated Companies because the affiliate he or she works for ceases to be an Affiliated Company because it is sold or spunoff.
ARTICLE II
Eligibility for and Amount of Benefits

2.01 Purpose. The purpose of this Plan is simply to restore to employees of the Company the benefits they lose under the Pension Plans as a result of the benefit limits in Code section 415, as amended, or any successor section ("section 415"), as the benefit limits are described in the applicable Pension Plan.

2.02 Eligibility. Each Participant is eligible to receive a benefit under this Plan if:

(a) he or she has vested in benefits under one or more of the Pension Plans;
(b) he or she has vested benefits reduced because of the application of section 415;
(c) he or she is not eligible to receive a benefit under the Northrop Corporation Supplemental Retirement Income Program for Senior Executives or any other plan or program which bars an employee from participation in this Plan; and
(d) he or she is not a “Participant” in the Charles H. Noski Executive Retirement Plan as that term is defined under that plan.

2.03 Amount of Benefit. The benefit payable from the Company under this Plan to a Participant will equal the retirement benefit, if any, which would have been payable to the Participant under the terms of a Pension Plan but for the restrictions of section 415 (as described in the applicable Pension Plan).

The benefit payable under this Plan will be reduced by the amount of Pension Plan Benefits attributable to the applicable Pension Plan.

Benefits under this Plan will only be paid to supplement benefit payments actually made from a Pension Plan. If benefits are not payable under a Pension Plan because the Participant has failed to vest or for any other reason, no payments will be made under this Plan with respect to such Pension Plan.

In no event, however, (1) will this Plan pay any amount of a Participant’s retirement benefit, if any, attributable to the “2000 Ad Hoc Increase for Retirees” Appendix added to certain of the Company’s tax-qualified plans pursuant to the Northrop Grumman Corporation Board of Directors resolution adopted May 17, 2000, or (2) will a Participant be entitled to a benefit (or an increased benefit) from or as a result of participation in this Plan under the Northrop Grumman Corporation Board of Directors resolution adopted May 17, 2000.

The following shall not be considered as compensation for purposes of determining the amount of any benefit under the Plan:

(1) any payment authorized by the Compensation Committee that is (a) calculated pursuant to the method for determining a bonus amount under the Annual
Incentive Plan (AIP) for a given year, and (b) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, and

(2) any award payment under any Huntington Ingalls Industries long-term incentive cash plan.

2.04 Preretirement Surviving Spouse Benefit. This Section only applies to Grandfathered Amounts.

Preretirement surviving spouse benefits will be payable under this Plan on behalf of a Participant if such Participant’s surviving spouse is eligible for preretirement surviving spouse benefits payable from a Pension Plan. The benefit payable will be the amount which would have been payable under the Pension Plan but for the restrictions of section 415 (as described in the applicable Pension Plan).

The benefit payable under this Plan will be reduced by the amount of Pension Plan Benefits attributable to the applicable Pension Plan.

No benefit will be payable under this Plan with respect to a spouse after the death of that spouse.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

2.05 Forms and Times of Benefit Payments. This Section only applies to Grandfathered Amounts.

The Company will determine the form and timing of benefit payments in its sole discretion. However, for payments made to supplement those of a particular Pension Plan, the Company will only select among the options available under that Pension Plan, and using the same actuarial adjustments used in that Pension Plan except in cases of lump sums.

Whenever the present value of the amount payable under the Plan does not exceed $10,000, it will be paid in the form of a single lump sum as of the first of the month following Termination of Employment. The lump sum will be calculated using the factors and methodology described in Section 3.08 below. (See Section 2.09 for the rule that applies as of January 1, 2008).

No payments will commence under this Plan until a Participant has a Termination of Employment, even in cases where benefits have commenced under a Pension Plan for Participants over age 70-1/2.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

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2.06 **Beneficiaries and Spouses.** This Section only applies to Grandfathered Amounts.

If the Company selects a form of payment which includes a survivor benefit, the Participant may make a beneficiary designation, which may be changed at any time prior to commencement of benefits. A beneficiary designation must be in writing and will be effective only when received by the Company.

If a Participant is married on the date his or her benefits are scheduled to commence, his or her beneficiary will be his or her spouse unless some other beneficiary is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before benefits commence and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

The Participant’s spouse will be the spouse as determined under the underlying Pension Plan.

See Appendix A and Appendix B for the rules that apply to other benefits earned under the Plan.

2.07 **Plan Termination.** No further benefits may be earned under this Plan with respect to a particular Pension Plan after the termination of such Pension Plan.

2.08 **Pension Plan Benefits.** The term “Pension Plan Benefits” generally means the benefits actually payable to a Participant, spouse, beneficiary or contingent annuitant under a Pension Plan. However, this Plan is only intended to remedy pension reductions caused by the operation of section 415 and not reductions caused for any other reason. In those instances where pension benefits are reduced for some other reason, the term “Pension Plan Benefits” shall be deemed to mean the benefits that would have been actually payable but for such other reason.

Examples of such other reasons include, but are not limited to, the following:

(a) A reduction in pension benefits as a result of a distress termination (as described in ERISA § 4041(c) or any comparable successor provision of law) of a Pension Plan. In such a case, the Pension Plan Benefits will be deemed to refer to the payments that would have been made from the Pension Plan had it terminated on a fully funded basis as a standard termination (as described in ERISA § 4041(b) or any comparable successor provision of law).

(b) A reduction of accrued benefits as permitted under Code section 412(c)(8), as amended, or any comparable successor provision of law.

(c) A reduction of pension benefits as a result of payment of all or a portion of a Participant’s benefits to a third party on behalf of or with respect to a Participant.
2.09 Mandatory Cashout. Notwithstanding any other provisions in the Plan, Participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

(a) Post-2007 Terminations. Participants who have a Termination of Employment after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of Termination of Employment (without interest), if such present value is below the Code section 402(g) limit in effect at the Termination of Employment.

(b) Pre-2008 Terminations. Participants who had a Termination of Employment before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Huntington Ingalls Industries Pension Plan shall be used.

2.10 Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

(a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under the Plan on October 3, 2004.

(b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

<table>
<thead>
<tr>
<th>Interest Rate:</th>
<th>6%nbsp;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortality Table:</td>
<td>RP-2000 Mortality Table projected 15 years for future standardized cash balance factors</td>
</tr>
</tbody>
</table>

2.11 Special Tax Distribution. On the date a Participant’s retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Participant’s portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will be based on all benefits under the Plan, including Grandfathered Amounts. This
payment will reduce the Participant’s future benefit payments under the Plan on an actuarial basis.
ARTICLE III
Lump Sum Election

This Article only applies with respect to Grandfathered Amounts. See Appendix A and Appendix B for the distribution rules that apply to other benefits earned under the Plan.

3.01 In General. This Article sets forth the rules under which Participants may elect to receive their benefits in a lump sum. Except as provided in Section 3.08, this Article does not apply to active employees (as defined in Section 3.04) in cases where benefits are automatically payable in lump sum form under Article II.

3.02 Retirees Election. Participants and Participants’ beneficiaries already receiving monthly benefits under the Northrop Grumman ERISA Supplemental Plan at its inception will be given a one-time opportunity to elect a lump sum payout of future benefit payments.

(a) The election must be made within a 60-day period determined by the Company. Within its discretion, the Company may delay the commencement of the 60-day period in instances where the Company is unable to timely communicate with a particular payee.

(b) The determination as to whether a payee is already receiving monthly benefits will be made at the beginning of the 60-day period.

(c) An election to take a lump sum must be accompanied by a waiver of the existing retiree medical benefits by those Participants (and their covered spouses or surviving spouses) entitled either to have such benefits entirely paid for by the Company or to receive such benefits as a result of their classification as an employee under Executive Class Code II.

Following the waiver, waiving Participants (and covered spouses or surviving spouses) will be entitled to the coverage offered to employees who are eligible for Senior Executive Retirement Insurance Benefits in effect as of July 1, 1993.

(d) If the person receiving payments as of the beginning of the 60-day period dies prior to making a lump sum election, his or her beneficiary, if any, may not make the lump sum election.

(e) Elections to receive a lump sum (and waivers under (c)) must be made in writing and must include spousal consent if the payee (whether the Participant or beneficiary) is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.

(f) An election (with spousal consent, where required) to receive the lump sum made at any time during the 60-day period will be irrevocable. If no proper election has been made by the end of the 60-day period, payments will continue unchanged in the monthly form that had previously been applicable.
3.03 **Retirees Lump Sum.** If a retired Participant or beneficiary makes a valid election under Section 3.02 within the 60-day period, monthly payments will continue in the previously applicable form for 12 months (assuming the payees live that long).

(a) As of the first of the 13\textsuperscript{th} month, the present value of the remaining benefit payments will be paid in a single lump sum to the Participant, if alive, or, if not, to the beneficiary under the previously applicable form of payment.

(b) No lump sum payment will be made if:

1. The Participant is receiving monthly benefit payments in a form that does not provide for survivor benefits and the Participant dies before the time the lump sum payment is due.
2. The Participant is receiving monthly benefit payments in a form that does provide for survivor benefits but the Participant and the beneficiary die before the time the lump sum payment is due.

(c) The following rules apply where payment is being made in the form of a 10-year certain and continuous life annuity option:

1. If the Participant is deceased at the commencement of the 60-day election period, the surviving beneficiary may not make the election if there are less than 13 months left in the 10-year certain period.
2. If the Participant elects the lump sum and dies prior to the first of the 13\textsuperscript{th} month:
   
   A) if the 10-year certain period has already ended, all monthly payments will cease at the Participant’s death and no lump sum payment will be made;
   
   B) if the 10-year certain period ends after the Participant’s death and before the beginning of the 13\textsuperscript{th} month, monthly payments will end at the end of the 10-year certain period and no lump sum payment will be made; and
   
   C) if the 10-year certain period ends after the beginning of the 13\textsuperscript{th} month, monthly payments will continue through the 12\textsuperscript{th} month, and a lump sum payment will be made as of the first of the 13\textsuperscript{th} month, equal to the present value of the remaining benefit payments.

3.04 **Actives Election.** Active Participants may elect to have their benefits paid in the form of a single lump sum under this Section.
(a) A Participant is considered to be “Active” under this Section if he or she is still employed by the Affiliated Companies on or after the beginning of the initial 60-day period referred to in Section 3.02.

(b) An election to take a lump sum may be made at any time during the 60-day period prior to Termination of Employment and covers both—
   
   (1) Benefits payable to the Participant during his or her lifetime, and
   
   (2) Survivor benefits (if any) payable to the Participant’s beneficiary, including preretirement death benefits (if any) payable to the Participant’s spouse.

(c) An election does not become effective until the earlier of
   
   (1) the Participant’s Termination of Employment, or
   
   (2) the Participant’s death.

   Before the election becomes effective, it may be revoked.

   If a Participant does not have a Termination of Employment within 60 days after making an election, the election will never take effect.

(d) An election may only be made once. If it fails to become effective after 60 days or is revoked before becoming effective, it cannot be made again at a later time.

(e) After a Participant has a Termination of Employment, no election can be made.

(f) If a Participant dies before making a lump sum election, his or her spouse may not make a lump sum election with respect to any benefits which may be due the spouse.

(g) Elections to receive a lump sum must be made in writing and must include spousal consent if the Participant is married. Elections and spousal consent must be witnessed by a Plan representative or a notary public.

3.05 Actives Lump Sum — Retirement Eligible. If a Participant with a valid lump sum election in effect under Section 3.04 has a Termination of Employment after he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

(a) Monthly benefit payments will be made for up to 12 months, commencing the first of the month following Termination of Employment. Payments will be made:
(1) in the case of a Participant who is not married on the date benefits are scheduled to commence, based on a straight life annuity for the Participant’s life and ceasing upon the Participant’s death should he or she die before the 12 months elapse, or

(2) in the case of a Participant who is married on the date benefits are scheduled to commence, based on a joint and survivor annuity form —
   (A) with the survivor benefit equal to 50% of the Participant’s benefit;
   (B) with the Participant’s spouse as the survivor annuitant;
   (C) determined by using the contingent annuitant option factors used to convert straight life annuities to 50% joint and survivor annuities under the Huntington Ingalls Industries Pension Plan; and
   (D) with all payments ceasing upon the death of both the Participant and his or her spouse should they die before the 12 months elapse.

(b) As of the first of the 13th month, the present value of the remaining benefit payments will be paid in a single lump sum. Payment of the lump sum will be made to the Participant if he or she is still alive, or, if not, to his or her surviving spouse, if any.

(c) No lump sum payment will be made if:
   (1) The Participant is receiving monthly benefit payments in the form of a straight life annuity and the Participant dies before the time the lump sum payment is due.
   (2) The Participant is receiving monthly benefit payments in a joint and survivor annuity form and the Participant and his or her spouse both die before the time the lump sum payment is due.

(d) A lump sum will be payable to a Participant’s spouse as of the first of the month following the date of the Participant’s death, if:
   (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
   (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
   (3) the spouse survives to the first of the month following the date of the Participant’s death.
3.06 **Actives Lump Sum — Not Retirement Eligible.** If a Participant with a valid lump sum election in effect under Section 3.04, has a Termination of Employment before he or she is entitled to commence benefits under the Pension Plans, payments will be made in accordance with this Section.

(a) No monthly benefit payments will be made.

(b) Following Termination of Employment, a single lump sum payment of the benefit will be made on the first of the month following 12 months after the date of the Participant’s Termination of Employment.

(c) A lump sum will be payable to a Participant’s spouse as of the first of the month following the date of the Participant’s death, if:

   (1) the Participant dies after making a valid lump sum election but prior to commencement of any benefits under this Plan;
   
   (2) the Participant is survived by a spouse who is entitled to a preretirement surviving spouse benefit under this Plan; and
   
   (3) the spouse survives to the first of the month following the date of the Participant’s death.

(d) No lump sum payment will be made if the Participant is unmarried at the time of death and dies before the time the lump sum payment is due.

3.07 **Lump Sums with CIC Severance Plan Election.** A Participant who elects lump sum payments of all his or her nonqualified benefits under the CIC Plans is entitled to have his or her benefits paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, benefit payments are governed by the general provisions of this Article, which provide different rules for calculating the amount of lump sum payments.

3.08 **Calculation of Lump Sum.** The factors to be used in calculating the lump sum are as follows:

   **Interest:** Whichever of the following two rates that produces the smaller lump sum:

   (1) the discount rate used by the Company for purposes of Statement of Financial Accounting Standards No. 87 of the Financial Accounting Standards Board as disclosed in the Company’s annual report to shareholders for the year end immediately preceding the date of distribution, or
   
   (2) the applicable interest rate that would be used to calculate a lump sum value for the benefit under the Pension Plans.
Mortality: the applicable mortality table that would be used to calculate a lump sum value for the benefit under the Huntington Ingalls Industries Pension Plan.

Increase in Section 415 Limit: 4% per year.

Age: Age rounded to the nearest month on the date the lump sum is payable.

Variable Unit Values: Variable Unit Values are presumed not to increase for future periods after the date the lump sum is payable.

The annuity to be converted to a lump sum will be the remaining annuity currently payable to the Participant or his or her beneficiary at the time the lump sum is due.

For example, assume a Participant is receiving benefit payments in the form of a 50% joint and survivor annuity.

If the Participant and the survivor annuitant are both still alive at the time the lump sum payment is due, the present value calculation will be based on the remaining benefits that would be paid to both the Participant and the survivor in the annuity form.

If only the survivor is alive, the calculation will be based solely on the remaining 50% survivor benefits that would be paid to the survivor.

If only the Participant is alive, the calculation will be based solely on the remaining benefits that would be paid to the Participant.

In the case of a Participant who dies prior to commencement of benefits under this Plan so that only a preretirement surviving spouse benefit (if any) is payable, the lump sum will be based solely on the value of the preretirement surviving spouse benefit.

In the case of a lump-sum under Section 3.07 (related to lump sums with a CIC Severance Plan election), the lump-sum amount will be calculated as described in that section and the rules of this Section 3.08 are not used.

3.09 Spousal Consent: Spousal consent, as required for elections as described above, need not be obtained if the Company determines that there is no spouse or the spouse cannot be located.
ARTICLE IV

Miscellaneous

4.01 Amendment and Plan Termination. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not a Participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant’s accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent “material modification” to the Grandfathered Amounts.

The Company may, in its sole discretion, seek reimbursement from the Pension Plans to the extent this Plan pays Pension Plan Benefits to which Participants were entitled to or became entitled to under the Pension Plans.

4.02 Not an Employment Agreement. Nothing contained in this Plan gives any Participant the right to be retained in the service of the Company, nor does it interfere with the right of the Company to discharge or otherwise deal with Participants without regard to the existence of this Plan.

4.03 Assignment of Benefits. A Participant, surviving spouse or beneficiary may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to attachment or garnishment by any of their creditors or to legal process.

Notwithstanding the foregoing, all or a portion of a Participant’s benefit may be paid to another person as specified in a domestic relations order that the plan administrator determines is qualified (a “Qualified Domestic Relations Order”). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

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

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

(3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant’s benefits under the Plan; and
The plan administrator shall determine whether any document received by it is a Qualified Domestic Relations Order. In making this determination, the plan administrator may consider the rules applicable to “domestic relations orders” under Code section 414(p) and ERISA section 206(d), and such other rules and procedures as it deems relevant.

4.04 Nonduplication of Benefits. This Section applies if, despite Section 4.03, with respect to any Participant (or his or her beneficiaries), the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any amounts due the Participant (or his or her beneficiaries) under this Plan will be reduced by the actuarial value of the payments required to be made to such other person or entity.

Actuarial value will be determined using the factors and methodology described in Section 3.08 above (in the case of lump sums) and using the actuarial assumptions in the underlying Pension Plan in all other cases.

In dividing a Participant’s benefit between the Participant and another person or entity, consistent actuarial assumptions and methodologies will be used so that there is no increased actuarial cost to the Company.

4.05 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to make benefit payments in the future. The Company may, but need not, fund benefits under the Plan through a trust. If it does so, any trust created by the Company and any assets held by the trust to assist it in meeting its obligations under the Plan will conform to the terms of the model trust, as described in Internal Revenue Service Revenue Procedure 92-64, but only to the extent required by Internal Revenue Service Revenue Procedure 92-65. It is the intention of the Company and Participants that the Plan be unfunded for tax purposes and for purposes of Title I of ERISA.

Any funding of benefits under this Plan will be in the Company’s sole discretion. The Company may set and amend the terms under which it will fund and may cease to fund at any time.

4.06 Construction. The Company shall have full discretionary authority to determine eligibility and to construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions.

4.07 Governing Law. This Plan shall be governed by the law of the State of Delaware, except to the extent superseded by federal law.

4.08 Actions By Company and Claims Procedures. Any powers exercisable by the Company under the Plan shall be utilized by written resolution adopted by the Board of Directors or its delegate. The Board may by written resolution delegate any of the Company’s powers
under the Plan and any such delegations may provide for subdelegations, also by written resolution.

The Company’s standardized “Huntington Ingalls Industries Nonqualified Retirement Plans Claims and Appeals Procedures” shall apply in handling claims and appeals under this Plan.

4.09 **Plan Representatives.** Those authorized to act as Plan representatives will be designated in writing by the Board of Directors or its delegate.

4.10 **Number.** The singular, where appearing in this Plan, will be deemed to include the plural, unless the context clearly indicates the contrary.

* * *

IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer on this _____ day of ____________, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By:  

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This Appendix A provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

A.01 **Election.** Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the Participant’s selected benefit commencement date.

A.02 **2005 Commencements.** Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Participants commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Participant.

(a) **Key Employees.** A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee’s date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.

(b) **Lump Sum Option.** During 2005, a temporary immediate lump sum feature shall be available as follows:

(i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a Participant must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;

(ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and

(iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan’s procedures for calculating lump sums as of December 31, 2004.
A.03  **2006 and 2007 Commencements.** Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Participant’s benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Participant’s benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).
The provisions of this Appendix B shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Articles II and III, and Appendix A addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

B.01 **Time of Distribution.** Subject to the special rules provided in this Appendix B, distributions to a Participant of his vested retirement benefit shall commence as of the Payment Date.

B.02 **Special Rule for Key Employees.** If a Participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the Participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Participant’s death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant’s Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Huntington Ingalls Industries Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).

B.03 **Forms of Distribution.** Subject to the special rules provided in this Appendix B, a Participant’s vested retirement benefit shall be distributed in the form of a single life annuity. However, a Participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:

(a) 50% joint and survivor annuity
(b) 75% joint and survivor annuity
(c) 100% joint and survivor annuity.

If a Participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

B.04 **Death.** If a married Participant dies before the Payment Date, a death benefit will be payable to the Participant’s spouse commencing 90 days after the Participant’s death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a Participant’s vested retirement benefit based on a 100% joint and survivor annuity determined on the Participant’s date of death. This benefit is also payable to a
Participant’s domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

B.05 Actuarial Assumptions. Except as provided in Section B.06, all forms of payment under this Appendix B shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

- Interest Rate: 6%
- Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

B.06 Accelerated Lump Sum Payouts.

(a) Post-2007 Separations. Notwithstanding the provisions of this Appendix B, for Participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a Participant’s retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to $25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section B.02, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Participant’s Separation from Service.

(b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix B, for Participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a Participant’s retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Participant attains age 55, is less than or equal to $25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Participant attains age 55, but no earlier that January 1, 2008.

(c) Conflicts of Interest. The present value of a Participant’s vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.

(d) Present Value Calculation. The conversion of a Participant’s retirement benefit into a lump sum payment and the present value calculations under this Section B.06 shall be based on the actuarial assumptions in effect under the Huntington Ingalls Industries Pension Plan for purposes of calculating lump sum amounts.
and will be based on the Participant’s immediate benefit if the Participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Participant will be eligible to receive at age 55.

B.07 Effect of Early Taxation. If the Participant’s benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Participant.

B.08 Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Company’s reasonable anticipation of one or more of the following events:

(a) The Company’s deduction with respect to such payment would be eliminated by application of Code section 162(m); or
(b) The making of the payment would violate Federal securities laws or other applicable law;

provided, that any payment delayed pursuant to this Section B.08 shall be paid in accordance with Code section 409A.
C.01 **Background.** The Company was a subsidiary of Northrop Grumman Corporation ("NGC") prior to the Distribution Date. On the Distribution Date, pursuant to an agreement between the Company and NGC, the liabilities for certain participants’ benefits under the Northrop Grumman ERISA Supplemental Plan (the "NGC Plan"), including Grandfathered Amounts, were transferred to the Company and to this Plan. The Participants whose benefits were transferred to this Plan on the Distribution Date and other Participants who were employees of the Affiliated Companies on the Distribution Date are referred to below as “NGC Participants.” The rules in this Appendix shall apply to NGC Participants and certain other Plan terms notwithstanding any Plan provisions to the contrary.

C.02 **Plan Benefits.** NGC Participants who qualified as eligible employees under the NGC Plan on the Distribution Date shall be eligible employees under this Plan on such date. All service and compensation that would be taken into account for purposes of determining the amount of a NGC Participant’s benefit or his vested right to a benefit under the NGC Plan as of the Distribution Date shall be taken into account for the same purposes under this Plan.

C.03 **Distributions.** The terms of this Plan shall govern the distribution of all benefits payable to a NGC Participant or any other person with a right to receive such benefits, including amounts accrued under the NGC Plan and then transferred to this Plan.

C.04 **Termination and Key Employees.** For avoidance of doubt, no NGC Participant shall be treated as incurring a separation from service, termination of employment, retirement, or similar event for purposes of determining the right to a distribution (for amounts subject to Code section 409A or otherwise), vesting, benefits, or any other purpose under the Plan as a result of NGC’s distribution of Company shares to NGC’s shareholders. Also, the Company’s Key Employees shall be determined in accordance with the special rules for spin-offs under Treas. Reg. §1.409A-1(i)(6)(iii), or any successor thereto, for the period indicated in such regulation.

C.05 **Participant Elections.** All elections made by NGC Participants under the NGC Plan, including any payment elections or beneficiary designations, shall apply to the same effect under this Plan as if made under the terms of this Plan.

C.06 **References to Plan.** All references in this Plan to the “Plan” as in effect before the effective date of the Plan shall be read as references to the NGC Plan.

C.07 **Right to Benefits.** With respect to any service or compensation used to determine a benefit provided or due under the NGC Plan at any time, no benefit will be due under the Plan except with respect to such service and compensation related to a liability transferred from the NGC Plan to the Plan on the Distribution Date. Additionally, on and after the Distribution Date, NGC and the NGC Plan, and any successors thereto shall have no further obligation or liability to any NGC Participant with respect to any benefit, amount, or right due under the NGC Plan.
Severance Plan for
Elected and Appointed Officers of
Huntington Ingalls Industries
1. Purpose of Plan. The purpose of the Plan is to provide severance benefits for eligible elected and appointed officers of Huntington Ingalls Industries, Inc. (the “Company”) who reside and work in the United States. The terms of this Plan are effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, the Company and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring.

In all cases, no individual will be entitled to benefits under both this Plan and the Severance Plan for Elected and Appointed Officers of Northrop Grumman Corporation (the “NGC Plan”) at the same time or with respect to the same service.

For an individual (1) whose employment with NGC and its affiliates was terminated prior to the Distribution, (2) who qualifies as an HII Retiree, and (3) who was eligible to receive a benefit under the NGC Plan based on such termination, but who had not received all potential severance benefits under the NGC Plan prior to the Distribution, any obligation to provide severance benefits to such person, to the extent not paid prior to the Distribution, will transfer to the Company and the Plan as of the Distribution. Thereafter, the Plan will provide any severance benefits due such person, and no further severance benefits will be due under the NGC Plan. (The terms “Distribution” and “HII Retiree” used in this paragraph have the meanings specified in the Employee Matters Agreement among Northrop Grumman Corporation, New P, Inc. and the Company.)

2. Definitions. The terms defined in this section shall have the meaning given below:

(a) “Committee” means the Compensation Committee of the Board of Directors of the Company or any successor to the Committee.


(c) “Company” means Huntington Ingalls Industries, Inc.

(d) “CPC” means the Corporate Policy Council.

(e) “Disability” means any disability of an Officer recognized as a disability for purposes of the Company’s long-term disability plan, or similar plan later adopted by the Company in place of such plan.

(f) “Key Employee” means an employee treated as a “specified employee” as of his Separation from Service under Code section 409A(a)(2)(B)(i) of the Company or its affiliate (i.e., a key employee (as defined in Code section 416(i) without regard to paragraph (5) thereof) if the 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 Officers 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 twelve (12) month period commencing on April 1 of the following year. Notwithstanding the foregoing, Key Employees of the Company will be determined in accordance with the special rules for spin-offs under Treas. Reg. §1.409A-1(i)(6)(iii), or any successor thereto, for the period indicated in such regulation.

(g) “Officer” means an elected or appointed officer of Huntington Ingalls Industries, Inc. who resides and works in the United States.
Plan means this Severance Plan for Elected and Appointed Officers of Huntington Ingalls Industries, as it may be amended from time to time.

Qualifying Termination means any one of the following (i) an Officer’s involuntary termination of employment with the Company, other than Termination for Cause or mandatory retirement, or (ii) an Officer’s election to terminate employment with the Company in lieu of accepting a downgrade to a non-Officer position or status. “Qualifying Termination” does not include any change in the Officer’s employment status due to any transfer within the Company or to an affiliate, or to a purchaser of assets or a portion of the business of the Company or an affiliate in connection with the purchase, Disability, voluntary termination or normal retirement.

Release means the Company’s Confidential Separation Agreement and General Release as in effect at the time of the Officer’s termination of employment.

Separation from Service or Separate from Service means a “separation from service” within the meaning of Code section 409A.

Termination for Cause means an Officer’s termination of employment with the Company because of:

(i) The continued failure by the Officer to devote reasonable time and effort to the performance of his duties (other than a failure resulting from the Officer’s incapacity due to physical or mental illness) after written demand for improved performance has been delivered to the Officer by the Company which specifically identifies how the Officer has not devoted reasonable time and effort to the performance of his duties;

(ii) The willful engaging by Officer in misconduct which is substantially injurious to the Company, monetarily or otherwise; or

(iii) The Officer’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).

A Termination for Cause shall not include a termination attributable to:

(i) Bad judgment or negligence on the part of the Officer other than habitual negligence; or

(ii) An act or omission believed by the Officer in good faith to have been in or not opposed to the best interests of the Company and reasonably believed by the Officer to be lawful.

3. Eligibility Requirements.

(a) Benefits under the Plan are subject to the Company’s sole discretion and approval.

(b) To be considered to receive benefits under the Plan an Officer must meet the following conditions:

(i) The Officer must experience a Qualifying Termination that results in termination of employment. If, before termination of employment occurs due to the Qualifying Termination event, the Officer voluntarily quits, retires, or experiences a Termination for Cause, the Officer will not receive benefits under this Plan.
The Officer must sign the Release. The Company’s current Confidential Separation Agreement and General Release is attached hereto as Exhibit A, however the Company may amend and make changes to this agreement at any time (with such amendments including, without limitation, any amendments that the Company may determine to be necessary or advisable to help ensure that the agreement is enforceable to the fullest extent permissible under applicable law at the time of the Officer’s termination of employment).

4. Severance Benefits. Upon the Qualifying Termination of any eligible Officer, the terminated Officer shall be entitled to the following benefits under the Plan: (a) a lump-sum severance cash payment, (b) an extension of the Officer’s existing medical and dental coverage, (c) a prorated annual cash bonus payment, and (d) certain other fringe benefits.

   (a) Lump-sum Cash Severance Payment. The designated Appendix describes the lump sum severance benefit available to the Officer.

   (b) Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer’s medical and dental benefits for the period of time following the Officer’s termination date that is specified in the designated Appendix. Such continuation coverage shall run concurrently with COBRA continuation coverage (or similar state law). The Officer must continue to pay his portion of the cost of this coverage with after-tax dollars. If rates for active employees increase during this continuation period, the contribution amount will increase proportionately. Also, if medical and dental benefits are modified, terminated or changed in any way for active employees during this continuation period the Officer will also be subject to such modification, termination or change. Following the continuation period specified in the designated Appendix the Officer will be eligible to receive COBRA benefits for any remaining portion of the applicable COBRA period (typically 18 months) at normal COBRA rates. The unreimbursed COBRA period (e.g., the period when the Officer must pay full COBRA rates in order to receive COBRA benefits) starts the first day of the month following the end of the continuation period specified in the designated Appendix.

   Example: A Non-CPC Officer receives a layoff notice on June 15, 2011, and his last day of work is June 30, 2011. The Officer’s 18-month COBRA period commences July 1, 2011. The Officer will continue to receive medical and dental coverage from July 1, 2011 through June 30, 2012, as long as the Officer continues to pay the appropriate contribution. Full COBRA rates will apply to the Officer from July 1, 2012 until the end of the remaining COBRA period on December 31, 2012.

   If the Officer is not covered by medical and dental benefits at the time of his termination, this section 4(b) will not apply and no continuation coverage will be offered. No health or welfare benefits other than medical and dental will be continued pursuant to the Plan, including but not limited to disability benefits.

   The medical and dental benefits to be provided or payments to be made under this section 4(b) shall be reduced to the extent that the Officer is eligible for benefits or payments for the same occurrence under another employer sponsored plan to which the Officer is entitled because of his employment subsequent to the Qualifying Termination.

   To the extent the benefits under this section 4(b) are, or ever become, taxable to the Officer and to the extent the benefits continue beyond the period in which the Officer would be entitled (or would, but for the Plan, be entitled) to COBRA continuation coverage if the Officer elected such coverage and paid the applicable premiums, the Company shall administer such continuation of coverage consistent with the following additional requirements as set forth in Treas. Reg. § 1.409A-3(i)(1)(iv):

   3
(i) Officer’s eligibility for benefits in one year will not affect Officer’s eligibility for benefits in any other year;

(ii) Any reimbursement of eligible expenses will be made on or before the last day of the year following the year in which the expense was incurred; and

(iii) Officer’s right to benefits is not subject to liquidation or exchange for another benefit.

In the event the preceding sentence applies and the Officer is a Key Employee, provision of these benefits after the COBRA period shall commence on the first day of the seventh month following the Officer’s Separation from Service (or, if earlier, the first day of the month after the Officer’s death).

(c) Company Performance Related Payment. The Officer will be eligible for a severance payment equal to a pro-rata portion of the bonus he or she would have received under the Company annual incentive plan in which he or she was a participant for the year in which the Qualifying Termination occurred, in addition to the lump-sum cash severance payment described in section 4(a). For this purpose, the pro-rated bonus (if any) will be based on the applicable annual incentive plan payout formula, with any applicable individual performance factor set at 1.00, prorated from the beginning of the performance period (January 1st) to the Officer’s date of termination. The severance payment contemplated by this Section 4(c) will be paid when the annual bonuses are paid to active employees between February 15 and March 15 of the year following termination. Notwithstanding anything to the contrary in this section 4(c), if the Officer’s bonus opportunity for the fiscal year in which his or her termination occurs is covered by the Company’s Incentive Compensation Plan (or similar successor bonus program designed to comply with the performance-based compensation exception under Section 162(m) of the Code), then the Officer’s severance payment pursuant to this section 4(c) shall not exceed the maximum bonus the Officer would have been entitled to receive under the Company’s Incentive Compensation Plan for that fiscal year, assuming the Officer had been employed through the date bonuses are paid under such plan for that year, and otherwise calculated under the terms of such plan based on actual performance for that fiscal year (but without giving effect to any discretion of the plan administrator to reduce the bonus amount from the maximum otherwise determined in accordance with such plan).

(d) Other Fringe Benefits. All reimbursements will be within the limits established in the Executive Perquisite Program. These perquisites will cease as of the date of termination except for the following:

(i) Financial Planning. If an Officer is eligible for financial planning reimbursement at the time of termination, the Officer will be reimbursed for any financial planning fees as specified in the designated Appendix. For these purposes, “financial planning reimbursement” includes any income tax preparation fee reimbursement the Officer may be entitled to under the financial planning reimbursement terms and conditions applicable to the Officer at the time of termination. The financial planning (including income tax preparation fee) reimbursements contemplated by the Appendices are subject to any other applicable limitations that may apply under the financial planning reimbursement terms and conditions applicable to the Officer at the time of termination (for example, and without limitation, annual caps on amounts that may be used in connection with income tax preparation). All such reimbursements pursuant to this section 4(d)(i) shall be administered consistent with the following additional requirements as set forth in Treas. Reg. § 1.409A-3(i)(1)(iv): (1) Officer’s eligibility for benefits in one year will not affect Officer’s eligibility for benefits in any other year; (2) any reimbursement of eligible...
expenses will be made on or before the last day of the year following the year in which the expense was incurred; and (3) Officer’s right to benefits is not subject to liquidation or exchange for another benefit. In addition, no reimbursements shall be made to an Officer who is a Key Employee for six months following the Officer’s Separation from Service.

(ii) **Outplacement Service.** The Officer will be reimbursed for the cost of reasonable outplacement services provided by the Company’s outplacement service provider for services provided within one year after the Officer’s date of termination; provided, however, that the total reimbursement shall be limited to an amount equal to fifteen percent (15%) of the Officer’s base salary as of the date of termination. All services will be subject to the current contract with the provider, and all such expenses shall be reimbursed as soon as practicable, but in no event later than the end of the year following the year the Officer Separates from Service.

(e) **Time and Form of Payment.** The severance benefits under section 4(a) will be paid to the eligible Officer in a lump sum as soon as practicable following the Officer’s Separation from Service, but in no event beyond thirty (30) days from such date, provided the Officer signs the Release within twenty one (21) days following the Officer’s Separation from Service. Notwithstanding the foregoing, if the Officer is a Key Employee, the lump sum payment shall be made on or within thirty (30) days after the first day of the seventh month following the Officer’s Separation from Service (or, if earlier, the first day of the month after the Officer’s death), provided the Officer signs the Release within twenty-one (21) days following the Officer’s Separation from Service. This amount will be paid after all regular taxes and withholdings have been deducted. No payment made pursuant to the Plan is eligible compensation under any of the Company’s benefit plans, including without limitation, pension, savings, or deferred compensation plans.

5. **Limitation of Plan Benefits.** Notwithstanding anything contained in this Plan to the contrary, if upon or following a change in the “ownership or effective control” of the Company or in the “ownership of a substantial portion of the assets” of the Company (each within the meaning of Section 280G of the Code), the tax imposed by Section 4999 of the Code or any similar or successor tax (the “Excise Tax”) applies, solely because of such transaction, to any payments, benefits and/or amounts received by the Officer pursuant to the Plan or otherwise, including, without limitation, any amounts received, or deemed received within the meaning of any provision of the Code, by the Officer as a result of (and not by way of limitation) any automatic vesting, lapse of restrictions and/or accelerated target or performance achievement provisions, or otherwise, applicable to outstanding grants or awards to the Officer under any of the Company’s incentive plans, including without limitation, any long-term incentive stock plan (collectively, the “Total Payments”), then the Total Payments shall be reduced (but not below zero) so that the maximum amount of the Total Payments (after reduction) shall be one dollar ($1.00) less than the amount which would cause the Total Payments to be subject to the Excise Tax; provided that such reduction to the Total Payments shall be made only if the total after-tax benefit to the Officer is greater after giving effect to such reduction than if no such reduction had been made. If such a reduction is required, the Company shall reduce or eliminate the Total Payments by first reducing or eliminating any cash severance benefits, then by reducing or eliminating any accelerated vesting of stock options, then by reducing or eliminating any accelerated vesting of other equity awards, then by reducing or eliminating any other remaining Total Payments, in each case in reverse order beginning with the payments which are to be paid the farthest in time from the date of the transaction triggering the Excise Tax.

The preceding provisions of this section 5 shall take precedence over the provisions of any other plan, arrangement or agreement governing the Officer’s rights and entitlements to any benefits or compensation.
6. Offset for Other Benefits Received. The benefits under the Plan are in lieu of, and not in addition to, any other severance or separation benefits for which the Officer is eligible under any Company plan, policy or arrangements (including but not limited to, severance benefits provided under any employment agreement, retention incentive agreement, or similar benefits under any individual change in control agreements, plans, policies, arrangements and change in control agreements of acquired companies or business units) (collectively, “severance plans”); provided that if the Officer is otherwise entitled to receive benefits under the Plan and severance benefits under the Huntington Ingalls Industries, Inc. Change-In-Control Severance Plan and/or a Huntington Ingalls Industries, Inc. Special Agreement, benefits shall be paid under such Change-In-Control Severance Plan and/or Special Agreement rather than under the Plan. If an Officer receives any benefit under any severance plan, such benefit shall cause a corresponding reduction in benefits under this Plan. If, despite any release that the Officer signs in connection with the Plan, such Officer is later awarded and receives benefits under any other severance plan(s), any benefits that the Officer receives under the Plan will be treated as having been received under those other severance plans for purposes of calculating total benefits received under those other severance plans (that is, benefits under those other severance plans will be reduced by amounts received under the Plan).

7. Administration. The Plan shall be administered by the Chief Human Resources Officer of the Company (the “administrator”). The administrator has sole and absolute discretion to interpret the terms of the Plan, eligibility for benefits, and determine questions of fact. The administrator may delegate any of his duties or authority to any individual or entity. Authority to hear appeals has been delegated to the corporate Severance Plan Review Committee.


Claims Procedure. If an Officer believes that he or she is entitled to benefits under the Plan and has not received them, the Officer or his authorized representative (each, a “claimant”) may file a claim for benefits by writing to the Chief Human Resources Officer, in care of the Company. The letter must state the reason why the claimant believes the Officer is entitled to benefits, and the letter must be received no later than 90 days after the Officer’s termination of employment, or 90 days after a payment was due, whichever comes first.

If the claim is denied, in whole or in part, the claimant will receive a written response within 90 days. This response will include (i) the reason(s) for the denial, (ii) reference(s) to the specific Plan provisions on which denial is based, (iii) a description of any additional information necessary to perfect the claim, and (iv) a description of the Plan’s claims and appeals procedures. In some cases more than 90 days may be needed to make a decision, in which case the claimant will be notified prior to the expiration of the 90 days that more time is needed to review the claim and the date by which the Plan expects to render the decision. In no event will the extension be for more than an additional 90 days.

Appeal of Denied Claim. The claimant may appeal a denied claim by filing an appeal with the corporate Severance Plan Review Committee within 60 days after the claim is denied. The appeal should be sent to the Severance Plan Review Committee c/o the Company. As part of the appeal process the claimant will be given the opportunity to submit written comments and information and be provided, upon request and free or charge, with copies of documents and other information relevant to the claim. The review on appeal will take into account all information submitted on appeal, whether or not it was provided for in the initial benefit determination. A decision will be made on the appeal within 60 days, unless additional time is needed. If more time is needed, the claimant will be notified prior to the expiration of the 60 days that up to an additional 60 days is needed and the date by which the Plan expects to render the decision. If the claim is denied, in whole or in part, on appeal the claimant will receive a written response which will include (i) the reason(s) for the denial, (ii) references to the specific Plan provisions on which the
denial is based, (iii) a statement that the claimant is entitled to receive, upon request and free of charge, copies of all documents and other information relevant to the claim on appeal, and (iv) a description of the Plan’s claims and appeals procedures.

If the claim is denied on appeal, the Officer has the right to bring an action under Section 502(a) of the Employee Retirement Income Security Act of 1974, as amended. Any claimant must pursue all claims and appeals procedures described in the Plan document before seeking any other legal recourse with respect to Plan benefits. In addition, any lawsuit must be filed within six months from the date of the denied appeal, or two years from the Officer’s termination date, whichever occurs first.

9. Amendment. The Company (acting through the Committee) reserves the right at any time to terminate or amend this Plan in any respect and without the consent of any Officer.

10. Unfunded Obligations. All benefits due an Officer or the Officer’s beneficiary under this Plan are unfunded and unsecured and are payable out of the general funds of the Company. The Company, in its sole and absolute discretion, may establish a trust associated with the payment of Plan benefits, provided that the trust does not alter the characterization of the Plan as an “unfunded plan” for purposes of the Employee Retirement Income Security Act, as amended. Any such trust shall make distributions in accordance with the terms of the Plan.

11. Transferability of Benefits. The right to receive payment of any benefits under this Plan shall not be transferred, assigned or pledged except by beneficiary designation or by will or under the laws of descent and distribution.

12. Taxes. The Company may withhold from any payment due under this Plan any taxes required to be withheld under applicable federal, state or local tax laws or regulations.

13. Gender. The use of masculine pronouns in this Plan shall be deemed to include both males and females.

14. Construction, Governing Laws. The Plan is intended as (i) a pension plan within the meaning of Section 3(2) of the Employee Retirement Income Security Act, as amended (“ERISA”), and (ii) an unfunded pension plan maintained by the Company for a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 2520.104-23 promulgated under ERISA, and Sections 201, 301, and 401 of ERISA. Nothing in this Plan creates a vested right to benefits in any employee or any right to be retained in the employ of the Company. Except to the extent that federal legislation or applicable regulation shall govern, the validity and construction of the Plan and each of its provisions shall be subject to and governed by the laws of the State of Delaware.

15. Severability. If any provision of the Plan is found, held or deemed to be void, unlawful or unenforceable under any applicable statute or other controlling law, the remainder of the Plan shall continue in full force and effect.
Appendix for Corporate Policy Council (CPC) Officers

The following benefits shall apply for purposes of eligible Officers who are members of the CPC:

Section 4(a). Lump-sum Cash Severance Payment. The lump sum cash severance payment shall equal one and one half (1.5) times the sum of (A) one year’s base salary as in effect on the effective date of the Officer’s termination, plus (B) the Officer’s target annual bonus established under the Company’s annual incentive plan in which he or she was a participant for the fiscal year in which the date of termination occurs. No supplemental bonuses or other bonuses will be combined with the Officer’s annual bonus for purposes of this computation.

Section 4(b). Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer’s medical and dental benefits for eighteen months following the Officer’s termination date.

Section 4(d)(i). Financial Planning. If the Officer is eligible for financial planning reimbursement at the time of termination, the Officer will be reimbursed for any financial planning fees incurred before his termination date. In addition, the Officer will be reimbursed for the following financial planning fees incurred after his termination date: (i) any fees incurred in the year in which the date of termination occurs, provided that the total financial planning reimbursement for such year (including fees incurred before and after the date of termination) shall not exceed $15,000 and (ii) any fees incurred in the year following the year in which the date of termination occurs, provided that the total financial planning reimbursement for such year shall not exceed $15,000.
Appendix for non-CPC Officers

The following benefits shall apply for purposes of eligible Officers who are not members of the CPC:

Section 4(a). Lump-sum Cash Severance Payment. The lump sum cash severance payment shall equal the sum of (A) one year’s base salary as in effect on the effective date of the Officer’s termination, plus (B) the Officer’s target annual bonus established under the Company’s annual incentive plan in which he or she was a participant for the fiscal year in which the date of termination occurs. No supplemental bonuses or other bonuses will be combined with the Officer’s annual bonus for purposes of this computation.

Section 4(b). Extension of Medical and Dental Benefits. The Company will continue to pay its portion of the Officer’s medical and dental benefits for one year following the Officer’s termination date.

Section 4(d)(i). Financial Planning. If the Officer is eligible for financial planning reimbursement at the time of termination, the Officer will be reimbursed for any financial planning fees incurred before his termination date. In addition, the Officer will be reimbursed for the following financial planning fees incurred after his termination date: (i) any fees incurred in the year in which the date of termination occurs, provided that the total financial planning reimbursement for such year (including fees incurred before and after the date of termination) shall not exceed $5,000 and (ii) any fees incurred in the year following the year in which the date of termination occurs, provided that the total financial planning reimbursement for such year shall not exceed $5,000.
Exhibit A

CONFIDENTIAL SEPARATION AGREEMENT
AND GENERAL RELEASE

1.0 PARTIES: The parties to this Confidential Separation Agreement and General Release ("Agreement") are John Doe ("Mr. Doe") and HUNTINGTON INGALLS INDUSTRIES, INC. ("HII" or "the Company").

2.0 RECITALS: This Agreement is made regarding the following facts:

   2.1 Mr. Doe is currently an appointed officer of HII.

   2.2 In connection with his separation from employment with the Company, Mr. Doe has been offered severance benefits under the Company’s Severance Plan for Elected and Appointed Officers (the “Severance Plan”).

   2.3 The Severance Plan requires that, to receive such benefits, an officer must sign a Confidential Separation Agreement and General Release. This Agreement satisfies this requirement.

   2.4 Mr. Doe has decided to accept the Company’s offer of severance benefits and to enter into this Agreement.

3.0 CONSIDERATION: In exchange for Mr. Doe’s promise to abide by all of the terms of this Agreement, the Company agrees to provide Mr. Doe the severance benefits specified in section 4 of the Severance Plan in accordance with the terms of the Severance Plan, which severance benefits include:

   3.1 Lump-sum Cash Severance. A payment equal to the sum of $________, less applicable withholding. This amount represents the total of [one] times the sum of (i) Mr. Doe’s annual base salary of $________; and (ii) Mr. Doe’s target annual bonus of $________ under the Company’s annual incentive plan in which Mr. Doe was a participant. This amount will be paid to Mr. Doe in a lump sum in accordance with the terms of the Severance Plan.

   3.2 Pro Rata Bonus. A severance payment equal to a pro rata portion of the bonus Mr. Doe would have received for the ____ performance year pursuant to the terms of the Company’s annual incentive plan in which Mr. Doe was a participant, in addition to the lump-sum cash severance payment described in Section 3.1. The bonus will be pro rated from the beginning of the performance period (January 1) to Mr. Doe’s Separation Date. For purposes of this severance payment, the pro rata bonus will be based on the applicable annual incentive plan payout.
alternative section 3.2 if termination occurs at year end: Mr. Doe will be paid a bonus for calendar year ____ pursuant to the terms of the Annual Incentive Plan (and not the Severance Plan), which will be based on the applicable incentive plan payout formula, with the Individual Performance Factor for Mr. Doe set at no less than 1.0. This bonus will be paid to Mr. Doe when annual bonuses are paid to employees between February 15 and March 15, ____.

3.3 Medical and Dental Coverage Continuation. Mr. Doe may elect to continue his medical and dental coverage in effect as of the Separation Date (as defined in Section 4.0 below) for [twelve] months, provided he pays his portion of the cost of such coverage with after-tax dollars. The Company will continue to pay its portion of the cost of Mr. Doe’s medical and dental benefits for the [twelve] month continuation period. If rates for active employees increase during this continuation period, Mr. Doe’s contribution will increase proportionately. Also, if medical and dental benefits are modified or terminated for active employees during this continuation period, Mr. Doe’s benefits shall be subject to this modification or termination. Mr. Doe’s medical and dental benefits shall be reduced to the extent Mr. Doe is eligible for benefits or payments for the same occurrence under another employer-sponsored plan to which Mr. Doe is entitled because of his employment after the Separation Date. This continuation coverage shall run concurrently with coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) (or similar state law coverage) and shall be in lieu of such coverage. Following the continuation period, Mr. Doe shall be eligible to receive COBRA benefits for any remaining portion of the applicable COBRA period at normal COBRA rates.

3.4 Other Fringe Benefits. Pursuant to the terms of the Executive Perquisite Program for appointed officers (the “Program”), Mr. Doe will be reimbursed for any eligible financial planning fees incurred during [year of Separation Date] (regardless of whether such fees are incurred before or after the Separation Date) and the immediately following year, subject to a maximum reimbursement for each year equal to [55,000]. Mr. Doe will be reimbursed for the cost of reasonable outplacement services from the Company’s outplacement service provider during the one year period following his Separation Date; provided, however that the total outplacement services reimbursement shall be no greater than _____. All outplacement services will be subject to the Company’s
current contract with the provider. The reimbursements provided for in this Section 3.4 are subject to the terms and conditions of, and will be reimbursed to Mr. Doe within the applicable time periods specified in, the Severance Plan. Except as provided in this Section 3.4, all perquisites shall cease as of the Separation Date.

3.5 Not Pension Eligible Compensation. [If alternative Section 3.2 is used:] Except for the bonus provided in Section 3.2, ] None of the consideration or payments made pursuant to the Severance Plan and specified in this Agreement shall be eligible as compensation under any Company retirement, pension or benefit plan.

4.0 SEPARATION FROM EMPLOYMENT: Mr. Doe’s employment will be terminated by the Company effective _________. This shall be his Separation Date.

5.0 COMPLETE RELEASE: In exchange for the consideration described in Section 3, Mr. Doe RELEASES the Company from liability for any claims, demands or causes of action (except as described in Section 5.5). This Release applies not only to the “Company” itself, but also to all HII subsidiaries, affiliates, related companies, predecessors, successors, its or their employee benefit plans, trustees, fiduciaries and administrators, and any and all of its and their respective past or present officers, directors, agents and employees (“Released Parties”). For purposes of this Release, the term “Mr. Doe” includes not only Mr. Doe himself, but also his heirs, spouses or former spouses, domestic partners or former domestic partners, executors and agents. Except as described in Section 5.5, this Release extinguishes all of Mr. Doe’s claims, demands or causes of action, known or unknown, against the Company and the Released Parties, based on anything occurring on or before the date Mr. Doe signs this Agreement.

5.1 This Release includes, but is not limited to, claims relating to Mr. Doe’s employment or termination of employment by the Company and any Released Party, any rights of continued employment, reinstatement or reemployment by the Company and any Released Party, claims relating to or arising under Company or Released Party dispute resolution procedures, claims for any costs or attorneys’ fees incurred by Mr. Doe, and claims for severance benefits other than those listed herein. Mr. Doe acknowledges and agrees that payment to him of the benefits set forth in this Agreement will fully satisfy any rights he may have for benefits under any severance plan of any of the Released Parties.

5.2 This Release includes, but is not limited to, claims arising under the Age Discrimination in Employment Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act, the False Claims Act, Executive Order No. 11246, the Civil Rights Act of 1991, and 42 U.S.C. § 1981. It also includes, but is not limited to, claims under
Title VII of the Civil Rights Act of 1964, which prohibits discrimination in employment based on race, color, religion, sex or national origin, and retaliation; the Americans with Disabilities Act, which prohibits discrimination in employment based on disability, and retaliation; any laws prohibiting discrimination in employment based on veteran status; any applicable state human rights statutes including the [insert applicable state law, such as: California Fair Employment and Housing Act, which prohibits discrimination in employment based on race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, marital status, sex, age, or sexual orientation ]; and any other federal, state or local laws, ordinances, regulations and common law, to the fullest extent permitted by law.

5.3 This Release also includes, but is not limited to, any rights, claims, causes of action, demands, damages or costs arising under or in relation to the personnel policies or employee handbooks of the Company and any Released Party, or any oral or written representations or statements made by the Company and any Released Party, past and present, or any claim for wrongful discharge, breach of contract (including any employment agreement), breach of the implied covenant of good faith and fair dealing, intentional or negligent infliction of emotional distress, intentional or negligent misrepresentation, or defamation.

5.4 [California version:]

Mr. Doe waives and gives up all rights he may have under Section 1542 of the California Civil code, which provides as follows:

A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

Notwithstanding the provisions of Section 1542, Mr. Doe agrees that his Release includes claims which he did not know of or suspect to exist at the time he signed this Agreement, and that this Release extinguishes all known and unknown claims.

[Alternative outside CA:]

[This Release includes both known and unknown claims. Mr. Doe agrees that this Release includes claims he did not know or suspect to exist at the time he signed this Agreement, and that this Release extinguishes all known and unknown claims.]

5.5 However, this Release does not include any rights Mr. Doe may have:
(1) to enforce this Agreement and his rights to receive the benefits described in Section 3 of this Agreement; (2) to any indemnification rights Mr. Doe may have for expenses or losses incurred in the course and scope of his employment; (3) to test the knowing and voluntary nature of this Agreement under The Older Workers Benefit Protection Act; (4) to workers’ compensation benefits; (5) to earned, banked or accrued but unused vacation pay; (6) to rights under minimum wage and overtime laws; (7) to vested benefits under any pension or savings plan; (8) to continued benefits in accordance with COBRA; (9) to government-provided unemployment insurance; (10) to file a claim or charge with any government administrative agency (although Mr. Doe is releasing any rights he may have to recover damages or other relief in connection with the filing of such a claim or charge); (11) to claims that cannot lawfully be released; (12) to any rights Mr. Doe may have for retiree medical coverage; (13) to any rights Mr. Doe may have with respect to his existing equity grants under the Company’s Long Term Incentive Stock Plan; or (14) to claims arising after the date Mr. Doe signs this Agreement.

6.0 **ARBITRATION:** If either the Company or Mr. Doe decides to sue the other over the enforceability of this Agreement, or for violating this Agreement, all such claims will be determined through final and binding arbitration, rather than through litigation in court, in accordance with Huntington Ingalls Industries, Inc. Corporate Procedure H103A. If the Company or Mr. Doe wants immediate relief, before the arbitration is finished, then either party may go to a court with jurisdiction over the dispute, and ask the court for provisional injunctive or other equitable relief until the arbitrator has issued an award or the dispute is otherwise resolved. Any court with jurisdiction over the dispute may enter judgment on the arbitrator’s award. Notwithstanding the provisions of H103A, the Company and Mr. Doe agree that the prevailing party in the arbitration shall be entitled to receive from the losing party reasonably incurred attorneys’ fees and costs incurred in enforcing this Agreement, except in any challenge by Mr. Doe to the validity of this Agreement under the Age Discrimination in Employment Act and/or Older Workers Benefit Protection Act.

7.0 **CONFIDENTIALITY:**

7.1 Mr. Doe agrees that he will keep the terms and fact of the Agreement completely confidential, and that he will not disclose any specific information regarding the terms and conditions of the Agreement to anyone other than his spouse, domestic partner, attorney, or accountant, except as necessary to enforce the Agreement, to comply with the law or lawful discovery, in response to a court order, or for tax or accounting purposes.

7.2 Should Mr. Doe choose to disclose the terms or fact of this Agreement to his spouse, domestic partner, attorney, or accountant, Mr. Doe agrees
that he will advise them that they will also be under an obligation to keep the terms and fact of this Agreement completely confidential.

7.3 Despite this confidentiality obligation, Mr. Doe, his legal counsel, his spouse or domestic partner, and his accountant are permitted to: (1) disclose the terms or the fact of this Agreement when required to do so by law, by any court or administrative agency (including state or federal taxing authorities), and by any tribunal of appropriate jurisdiction; and (2) provide truthful testimony about Mr. Doe’s employment with the Company or the Company’s business activities to any government or regulatory agency, or in any court proceeding.

8.0 RETURN OF COMPANY PROPERTY: Mr. Doe agrees to return any and all property and equipment of the Company and any Released Party that he may have in his possession no later than the Separation Date, except to the extent this Agreement explicitly provides to the contrary.

9.0 FULL DISCLOSURE: Mr. Doe acknowledges that he is not aware of, or has fully disclosed to the Company any matters for which he was responsible or came to his attention as an employee, which might give rise to any claim or cause of action against the Company and any Released Party. Mr. Doe has reported to the Company all work-related injuries, if any, that he has suffered or sustained during his employment with the Company and any Released Party. Mr. Doe has properly reported all hours he worked.

10.0 NO UNRESOLVED CLAIMS: This Agreement has been entered into with the understanding that there are no unresolved claims of any nature which Mr. Doe has against the Company. Mr. Doe acknowledges and agrees that except as specified in Section 3, all compensation, benefits, and other obligations due Mr. Doe by the Company, whether by contract or by law, have been paid or otherwise satisfied in full.

11.0 WITHHOLDING OF TAXES: The Company shall be entitled to withhold from any amounts payable or pursuant to this Agreement all taxes as legally shall be required (including, without limitation, United States federal taxes, and any other state, city or local taxes).

12.0 ADVICE OF COUNSEL; PERIOD FOR REVIEW AND CONSIDERATION OF AGREEMENT: The Company encourages Mr. Doe to seek and receive advice about this Agreement from an attorney of his choosing. Mr. Doe has twenty-one (21) calendar days [Alternative: forty-five (45) calendar days. Note: If this alternative is used, add attachments re program eligibility factors, selection information, and job titles and ages of employees selected/not selected] from his initial receipt of this Agreement to review and consider it. Mr. Doe understands that he may use as much of this review period as he wishes before signing this Agreement. If Mr. Doe has executed this Agreement before the end of such review period, he represents and agrees that he does so voluntarily and of his own free will.
13.0 **RIGHT TO REVOKE AGREEMENT:** Mr. Doe may revoke this Agreement within seven (7) calendar days of his signature date. To do so, Mr. Doe must deliver a written revocation notice to [fill in name, title and address.] Mr. Doe must deliver the notice to [name] no later than 4:30 p.m. [PT] on the seventh calendar day after Mr. Doe’s signature date. If Mr. Doe revokes this Agreement, it shall not be effective or enforceable, and Mr. Doe will not receive the benefits described in Section 3 of this Agreement.

14.0 **DENIAL OF WRONGDOING:** Neither party, by signing this Agreement, admits any wrongdoing or liability to the other. Both the Company and Mr. Doe deny any such wrongdoing or liability.

15.0 **COOPERATION:** Mr. Doe agrees that, for at least two (2) years following the Separation Date, he will reasonably cooperate with Company and any Released Party regarding requests for assistance by serving as a witness or providing information about matters connected with Mr. Doe’s prior employment with the Company or any Released Party. The Company or the Released Party requesting assistance shall reimburse Mr. Doe for any travel costs he incurs in connection with his cooperation, in accordance with its travel cost reimbursement policy for active employees.

16.0 **NON-SOLICITATION AND NON-DISPARAGEMENT:**

16.1 **By Mr. Doe:** For a period of one year following the Separation Date, Mr. Doe shall not, directly or indirectly, through aid, assistance, or counsel, on his own behalf or on behalf of another person or entity (i) solicit or offer to hire [Alternative outside CA: , or hire,] any person who was within a period of six months prior to the Separation Date employed by the Company, or (ii) by any means issue or communicate any public statement that may be critical or disparaging of the Company, its products, services, officers, directors, or employees; provided that the foregoing shall not apply to any truthful statements made in compliance with legal process or governmental inquiry.

16.2 **By the Company:** For a period of one year following the Separation Date, the Company shall not by any means issue or communicate any public statement that may be critical or disparaging of Mr. Doe, provided that the foregoing shall not apply to truthful statements made in compliance with legal process, governmental inquiry, or as required by legal filing or disclosure requirements.

17.0 **SEVERABILITY:** The provisions of this Agreement are severable. If any part of this Agreement, other than Section 5, is found to be illegal or invalid and thereby unenforceable, then the unenforceable part shall be removed, and the rest of the Agreement shall remain valid and enforceable.
18.0 **SOLE AND ENTIRE AGREEMENT:** This Agreement, together with relevant provision of the Severance Plan, expresses the entire understanding between the Company and Mr. Doe on the matters it covers. It supersedes all prior discussions, agreements, understandings and negotiations between the parties on these matters, except that any writing between the Company and Mr. Doe relating to protection of Company trade secrets or intellectual property shall remain in effect.

19.0 **MODIFICATION:** Once this Agreement takes effect, it may not be cancelled or changed, unless done so in a document signed by both Mr. Doe and an authorized Company representative.

20.0 **GOVERNING LAW:** This Agreement shall be interpreted and enforced in accordance with the laws of the State of [Delaware], without regard to rules regarding conflicts of law.

21.0 **ADVICE OF COUNSEL; VOLUNTARY AGREEMENT:**

MR. DOE ACKNOWLEDGES THAT HE HAS HAD AN OPPORTUNITY TO ASK QUESTIONS, CONFER WITH COUNSEL, AND CONSIDER ALL OF THE PROVISIONS OF THIS AGREEMENT BEFORE SIGNING IT. HE FURTHER AGREES THAT HE HAS READ THIS AGREEMENT CAREFULLY, THAT HE UNDERSTANDS IT, AND THAT HE IS VOLUNTARILY ENTERING INTO IT. MR. DOE UNDERSTANDS AND ACKNOWLEDGES THAT THIS AGREEMENT CONTAINS HIS RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

Date: ____________

By: ________________________________

Date: ____________

By: ________________________________

Huntington Ingalls Industries, Inc.

Title: ________________________________

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HUNTINGTON INGALLS INDUSTRIES
DEFERRED COMPENSATION PLAN

The Huntington Ingalls Industries Deferred Compensation Plan (the “Plan”) is hereby adopted effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring. The Plan is established to receive liabilities transferred from the Northrop Grumman Deferred Compensation Plan, and no amounts shall be deferred under the Plan on and after the Distribution Date.

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

See Appendix G for special rules related to the spin-off of the Company from Northrop Grumman Corporation.

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ARTICLE I

DEFINITIONS

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

(a) “Account” shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.

(b) “Administrative Committee” means the committee in charge of Plan administration, as described in Article VII.

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

(d) “Base Salary” shall mean a Participant’s annual base salary, excluding bonuses, commissions, incentive and all other remuneration for services rendered to the Affiliated Companies and prior to reduction for any salary contributions to a plan established pursuant to section 125 of the Code or qualified pursuant to section 401(k) of the Code.

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

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

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

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

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

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

(f) “Board” shall mean the Board of Directors of the Company.

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

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

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

(j) “Company” shall mean Huntington Ingalls Industries, Inc. and any successor.

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

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

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

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

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

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

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

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

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

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

(r) “Initial Election Period” shall mean:

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

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

(s) “Investment Committee” means the committee in charge of investment aspects of the Plan, as described in Article VII.
(t) “Key Employee” means an employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (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 twelve (12) month period commencing on April 1 of the following year.

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

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

(w) “Payment Date” shall mean:

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

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

(3) for distributions with a scheduled withdrawal date under Section B.1(c), a date after the December 31 prior to the elected payment year, the exact date in each case to be determined by the Administrative Committee to allow time for administrative processing.

(x) “Plan” shall be the Huntington Ingalls Industries Deferred Compensation Plan.

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

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

(aa) “Scheduled Withdrawal Date” shall mean the distribution date elected by the Participant for an in-service withdrawal of amounts deferred in a given Plan Year, and earnings and losses attributable thereto, as set forth on the election form for such Plan Year.
(bb) “Separation from Service” or “Separates from Service” or “Separating from Service” means a “separation from service” within the meaning of Code section 409A.
ARTICLE II
PARTICIPATION

2.1 In General

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

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

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

2.2 Disputes as to Employment Status

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

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

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

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

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

2.3 Cessation of Eligibility

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

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

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ARTICLE III
DEFERRAL ELECTIONS

3.1 Elections to Defer Compensation

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

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

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

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

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

3.2 Crediting of Deferrals.

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

(b) Cessation of Crediting. Effective as of the Distribution Date, no further amounts will be deferred under the Plan and credited to Participant Accounts.

3.3 Investment Elections

(a) The Investment Committee will establish a number of different types of investments for the Plan. The Investment Committee may change the investments from time to time, without prior notice to Participants.
(b) Participants may elect how their future contributions and existing Account balances will be deemed invested in the various types of investment and may change their elections from time to time.

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

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

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

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

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

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

3.4 Investment Return Not Guaranteed

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

4.1 Accounts

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

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

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

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

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

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

4.2 Use of a Trust

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

5.1 In General
A Participant’s interest in his or her Account will be nonforfeitable.

5.2 Exceptions
The following exceptions apply to the vesting rule:
(a) Forfeitures on account of a lost payee. See Section 6.4.
(b) Forfeitures under an escheat law.
(c) Recapture of amounts improperly credited to a Participant’s Account or improperly paid to or with respect to a Participant.
(d) Expenses charged to a Participant’s Account.
(e) Investment losses.
(f) Forfeitures resulting from early withdrawals. See Section B.2.
ARTICLE VI
DISTRIBUTIONS

6.1 Distribution of Deferred Compensation Contributions

Appendix B governs the distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Code section 409A. Thus, this Section 6.1 does not apply to these pre-2005 deferrals, but does apply to all other amounts deferred under the Plan.

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

(b) Distribution Upon Separation from Service. A Participant may elect on a deferral form to have the portion of his Account related to amounts deferred under the deferral form (and earnings thereon) distributed in a lump sum or in quarterly installments over a period of 5, 10, or 15 years. If a Participant does not elect a method for distribution for a deferred amount, the amount will be distributed in quarterly installments over 10 years. Notwithstanding the foregoing, if a Participant’s Account balance is $50,000 or less at the time the Participant Separates from Service or if the Separation from Service occurs before age 55 for reasons other than death or disability (as defined under Code section 409A), the deferred amount will be distributed in a lump sum payment. A lump sum payment shall be made in the second month following the month of Separation from Service. Installment payments shall commence as of the January, April, July, or October that next follows the month of Separation from Service and that is not the month immediately following the month of Separation from Service. For example, if a Separation from Service occurs in January, payments begin in April. If a Separation from Service occurs in March, payments begin in July.

Notwithstanding the foregoing, distributions may not be made to a Key Employee upon a Separation from Service before the date which is six months after the date of the Key Employee’s Separation from Service (or, if earlier, the date of death of the Key Employee). Any lump sum payment that would otherwise be made during this period of delay shall be paid on the first day of the seventh month following the Participant’s Separation from Service (or, if earlier, the first day of the month after the Participant’s death). Any series of installment payments impacted by this delay shall begin as of the January, April, July, or October.
coincident with or next following the Participant’s Separation from Service. The initial payment of such an installment series shall include any installment payments that would have otherwise been made during the period of delay.

(c) Distribution as of Specified Date. A Participant may elect on a deferral form to have the portion of his Account related to amounts deferred under the deferral form (and earnings thereon) paid to the Participant as of a January that is at least two years after the year of deferral. The Participant may elect to receive such amount as a lump sum or in quarterly installments over 2 to 5 years. If the amount is $25,000 or less at the specified date for distribution, the Participant will receive a lump sum distribution of the amount regardless of his elected distribution form. If the Participant Separates from Service before the specified date or while receiving a distribution of an amount under this Section 6.1(c), such portion of the Account will be distributed in accordance with the Participant’s distribution election for a Separation from Service made at the time of the Participant’s deferral election.

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

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

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

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

(e) Effect of Taxation. If Plan benefits are includible in the income of a Participant under Code section 409A prior to actual receipt of the benefits, the Administrative Committee shall immediately distribute the benefits found to be so includible to the Participant.

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

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

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

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

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6.2 Withdrawals for Unforeseeable Emergency

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

6.3 Payments Not Received At Death

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

6.4 Inability to Locate Participant

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

6.5 Committee Rules

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

7.1 Committees

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

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

7.2 Committee Action

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

7.3 Powers and Duties of the Administrative Committee

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

(a) To construe and interpret the terms and provisions of this Plan;
(b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;
(c) To maintain all records that may be necessary for the administration of the Plan;

(d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental agencies as shall be required by law;

(e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms hereof;

(f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan as the Administrative Committee may from time to time prescribe (including the power to subdelegate);

(g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and

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

7.4 Powers and Duties of the Investment Committee

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

(a) To select types of investment and the actual investments against which earnings and losses will be measured;

(b) To oversee any rabbi trust; and

(c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

7.5 Construction and Interpretation

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

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

7.7 **Committee Compensation, Expenses and Indemnity**

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

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

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

7.8 **Disputes**

The Company’s standardized “Huntington Ingalls Industries Nonqualified Retirement Plans Claims and Appeals Procedures” shall apply in handling claims and appeals under the Plan.
ARTICLE VIII
MISCELLANEOUS

8.1 Unsecured General Creditor

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

8.2 Restriction Against Assignment

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

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

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

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

(2) relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant;
(3) creates or recognizes the right of a spouse, former spouse, child or other dependent of the Participant to receive all or a portion of the Participant’s benefits under the Plan; and

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

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

8.3 Restriction Against Double Payment

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

8.4 Withholding

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

8.5 Amendment, Modification, Suspension or Termination

The Administrative Committee may amend, modify, suspend or terminate the Plan in whole or in part, except that no amendment, modification, suspension or termination may reduce a Participant’s Account balance below its dollar value immediately prior to the amendment. The preceding sentence is not intended to protect Participants against investment losses. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and as the time described in Article VI, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.

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

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

8.7 **Receipt or Release**

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

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

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

8.9 **Limitation of Rights and Employment Relationship**

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

8.10 **Headings**

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

* * *

IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer on this ______ day of _____________, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By:  

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APPENDIX A

2005 TRANSITION RELIEF

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

A.1 Cash-Out

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

A.2 Elections

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

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

A.3 Key Employees

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

I. Delay the distributions described above for six months from the date of Separation from Service. The delayed payments will be paid as a single sum with interest at the end of the six month period, with the remaining payments resuming as scheduled.

II. Accelerate the distributions described above into a payment in 2005 without interest adjustments.

III. Key Employees must elect I or II during 2005.
APPENDIX B

DISTRIBUTION RULES FOR PRE-2005 AMOUNTS

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

B.1 Distribution of Contributions

(a) Distributions Upon Early Termination

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

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

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

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

(A) A lump sum distribution on the Participant’s Payment Date.

(B) Quarterly installments over 5 years beginning on the Participant’s Payment Date.

(C) Quarterly installments over 10 years beginning on the Participant’s Payment Date.

(D) Quarterly installments over 15 years beginning on the Participant’s Payment Date.

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

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

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

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

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

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

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

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

B.2 Early Non-Scheduled Distributions

A Participant shall be permitted to elect an Early Distribution from his or her Account prior to a Payment Date under Section B.1, subject to the following restrictions:
(a) The election to take an Early Distribution shall be made by filing a form provided by and filed with the Administrative Committee prior to the end of any calendar month.

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

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

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

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

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

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

**B.3 Hardship Distribution**

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

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

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

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

**B.4 Plan Termination**

In the event that this Plan is terminated, the amounts allocated to a Participant’s Account shall be distributed to the Participant or, in the event of his or her death, to his or her Beneficiary in a lump sum.
C.1 Background

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

C.2 Treatment of Transferred Liabilities

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

C.3 Investments

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

C.4 Distributions

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

(a) Section B.1

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

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

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

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

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

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C.5 Other Provisions

The Transferred Liabilities and the Transferred Participant will be fully subject to the provisions of Articles IV, V, VII and VIII.
D.1 Background

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

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

* * * * *

10.6 Unfunded Deferred Compensation

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

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

* * * * *

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

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

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

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

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

D.2 Treatment of Transferred Liabilities

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

D.3 Investments

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

D.4 Distributions

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

(a) Section B.1
   (1) For purposes of Sections B.1(a)(2) and B.1(b)(1), the Transferred Participants will be deemed to have made an election of 10-year installments.
   (2) The Transferred Participants may utilize Section B.1(b)(2) to vary the form of their distributions.
   (3) Distributions under Section B.1(c) are not available.

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

(c) Sections 6.2-6.5. These Sections are fully applicable.

D.5 Other Provisions

The Transferred Liabilities and the Transferred Participants will be fully subject to the provisions of Articles IV, V, VII and VIII.
APPENDIX E
TRANSFER OF LIABILITIES — TASC, INC. SUPPLEMENTAL RETIREMENT PLAN

E.1 Background

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

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

E.2 Treatment of Transferred Liabilities

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

E.3 Investments

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

E.4 Distributions

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

E.5 Other Provisions

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

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APPENDIX F

2008 TRANSITION RELIEF

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

G.1 Background.

The Company was a subsidiary of Northrop Grumman Corporation (“NGC”) prior to the Distribution Date. On the Distribution Date, pursuant to an agreement between the Company and NGC, the liabilities for certain participants’ benefits under the Northrop Grumman Deferred Compensation Plan (the “NGC Plan”), including grandfathered amounts (i.e., amounts deferred and vested prior to January 1, 2005, and earnings related thereto), were transferred to the Company and to this Plan. The Participants whose benefits were transferred to this Plan on the Distribution Date are referred to below as “NGC Participants.” The rules in this Appendix shall apply to NGC Participants and certain other Plan terms notwithstanding any Plan provisions to the contrary.

G.2 Plan Benefits.

NGC Participants who qualified as eligible employees under the NGC Plan on the Distribution Date shall be eligible employees under this Plan on such date, provided that no deferrals shall be allowed into the Plan on and after the effective date. All service and compensation that was taken into account for purposes of determining the amount of a NGC Participant’s benefit or his vested right to a benefit under the NGC Plan as of the Distribution Date shall be taken into account for the same purposes under this Plan.

G.3 Distributions.

The terms of this Plan shall govern the distribution of all benefits payable to a NGC Participant or any other person with a right to receive such benefits, including amounts accrued under the NGC Plan and then transferred to this Plan.

G.4 Termination and Key Employees.

For avoidance of doubt, no NGC Participant shall be treated as incurring a separation from service, termination of employment, retirement, or similar event for purposes of determining the right to a distribution (for amounts subject to Code section 409A or otherwise), vesting, benefits, or any other purpose under the Plan as a result of NGC’s distribution of Company shares to NGC’s shareholders. Also, the Company’s Key Employees shall be determined in accordance with the special rules for spin-offs under Treas. Reg. §1.409A-1(i)(6)(iii), or any successor thereto, for the period indicated in such regulation.
G.5 **Participant Elections.**

All elections made by NGC Participants under the NGC Plan, including any payment elections and beneficiary designations, shall apply to the same effect under this Plan as if made under the terms of this Plan.

G.6 **References to Plan.**

All references in this Plan to the “Plan” as in effect before the effective date of the Plan shall be read as references to the NGC Plan.

G.7 **Right to Benefits.**

With respect to any recordkeeping account established to determine a benefit provided or due under the NGC Plan at any time, no benefit will be due under the Plan except with respect to the portion of such recordkeeping account reflecting the liability transferred from the NGC Plan to the Plan on the Distribution Date. Additionally, on and after the Distribution Date, NGC and the NGC Plan, and any successors thereto shall have no further obligation or liability to any NGC Participant with respect to any benefit, amount, or right due under the NGC Plan.
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INTRODUCTION

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

See Appendix D for special rules related to the spin-off of the Company from Northrop Grumman Corporation.
ARTICLE I
DEFINITIONS

1.1 Definitions

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

(a) “Account” shall mean the recordkeeping account set up for each Participant to keep track of amounts to his or her credit.

(b) “Administrative Committee” means the committee in charge of Plan administration, as described in Article VII.

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

(d) “Base Salary” shall mean a Participant’s annual base salary, excluding bonuses, commissions, incentive and all other remuneration for services rendered to the Affiliated Companies and prior to reduction for any salary contributions to a plan established pursuant to section 125 of the Code or qualified pursuant to section 401(k) of the Code.

(e) “Basic Contributions” shall have the same meaning as that term is defined in the HIISP.

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

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

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

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

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

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

(g) “Board” shall mean the Board of Directors of the Company.

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

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

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

(k) “Company” shall mean Huntington Ingalls Industries, Inc. and any successor.

(l) “Company Contributions” shall mean contributions by the Company to a Participant’s Account.

(m) “Compensation” shall be Compensation as defined by Section 5.01 of the HIISP.

(n) “Disability” or “Disabled” shall mean the Participant’s inability to perform each and every duty of his or her occupation or position of employment due to illness or injury as determined in the sole and absolute discretion of the Administrative Committee.
(o) “Eligible Compensation” shall mean (1) Compensation prior to January 1, 2009, and (2) after 2008, Base Salary and Bonuses, reduced by the amount of any deferrals made from such amounts under the Northrop Grumman Deferred Compensation Plan.

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

1. he or she is eligible to participate in the HIISP;
2. he or she is classified by the Affiliated Companies as an Employee and not as an independent contractor; and
3. he or she meets any additional eligibility criteria set by the Administrative Committee.

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

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

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

(s) “HIISP” shall mean the Huntington Ingalls Industries Savings Plan.

(t) “Investment Committee” means the committee in charge of investment aspects of the Plan, as described in Article VII.

(u) “Key Employee” means an employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (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 twelve (12) month period commencing on April 1 of the following year.

(v) “Open Enrollment Period” means the period designated by the Administrative Committee for electing deferrals for the following Plan Year.
(w) “Participant” shall mean any Eligible Employee who participates in this Plan in accordance with Article II or any Employee who is a RAC Participant.

(x) “Payment Date” shall mean:

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

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

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

(y) “Plan” shall be the Huntington Ingalls Industries Savings Excess Plan.

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

(aa) “RAC Contributions” shall mean the Company contributions under Section 3.2(b)(2).

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

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

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

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

PARTICIPATION

2.1 In General

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

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

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

2.2 Disputes as to Employment Status

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

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

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

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

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

3.1 Elections to Defer Eligible Compensation

(a) Timing. An Eligible Employee who meets the requirements of Section 2.1(a) may elect to defer Eligible Compensation earned in a Plan Year by filing an election in the Open Enrollment Period for the Plan Year. An election to participate for a Plan Year is irrevocable.

(b) Election Rules. An Eligible Employee’s election may be made in writing, electronically, or as otherwise specified by the Administrative Committee. Such election shall specify the Eligible Employee’s rate of deferral for contributions to the Plan, which shall be between 1% and 75%, and shall address distribution of the deferred amounts as described in Section 6.1. All elections must be made in accordance with the rules, procedures and forms provided by the Administrative Committee. The Administrative Committee may change the rules, procedures and forms from time to time and without prior notice to Participants.

(c) Cancellation of Election. If a Participant becomes disabled (as defined under Code section 409A) during a Plan Year, his deferral election for such Plan Year shall be cancelled.

3.2 Contribution Amounts

(a) Participant Contributions. An Eligible Employee’s contributions under the Plan for a Plan Year will begin once his or her Compensation for the Plan Year exceeds the Code section 401(a)(17) limit for the Plan Year. The Participant’s elected deferral percentage will be applied to his or her Eligible Compensation for the balance of the Plan Year.

(b) Company Contributions. The Company will make Company Contributions to a Participant’s Account as provided in (1), (2) and (3) below.

(1) Matching Contributions. The Company will make a Company Contribution equal to the matching contribution rate for which the Participant is eligible under the HIISP for the Plan Year multiplied by the amount of the Participant’s contributions under subsection (a).

(2) RAC Contributions. The Company will make RAC Contributions equal to a percentage of a RAC Participant’s Compensation for a Plan Year in excess of the Code section 401(a)(17) limit. The percentage used to calculate a RAC Participant’s contribution for a Plan Year shall be based on the RAC Participant’s age on the last day of the Plan Year as follows:

(i) Three percent if not yet age 35.

(ii) Four percent if 35 or older, but not yet 50.
(iii) Five percent if age 50 or older.

(3) **Make-Up Contributions for Contribution Limitation.** If an Eligible Employee’s Basic Contributions under the HIISP for a Plan Year are limited by the Code section 415(c) contribution limit before the Eligible Employee’s Basic Contributions under the HIISP are limited by the Code section 401(a)(17) compensation limit, the Company will make a Company Contribution equal to the amount of matching contributions for which the Eligible Employee would have been eligible under the HIISP were Code section 415(c) not applied, reduced by the actual amount of matching contributions made for the Plan Year under the HIISP.

3.3 **Crediting of Deferrals**

Amounts deferred by a Participant under the Plan shall be credited to the Participant’s Account as soon as practicable after the amounts would have otherwise been paid to the Participant. Company contributions other than those under Section 3.2(b)(3) will be credited to Accounts as soon as practicable after each payroll cycle in which they accrue. Company contributions under Section 3.2(b)(3) will be credited to Accounts as soon as practicable after each Plan Year.

3.4 **Maximum Contributions**

The total amount of contributions under Sections 3.2(a) and (b) made to the Plan on behalf of each Corporate Policy Council member (“CPC Participant”) shall not exceed $5 million (the “Lifetime Cap”). The following items will not count toward the Lifetime Cap: (a) investment gains or earnings, and (b) amounts originally contributed to other plans that have been or are merged into the Plan. Notwithstanding the foregoing, Company Contributions shall continue to be made to a CPC Participant’s Account until the end of the Plan Year in which the CPC Participant reaches the Lifetime Cap, and any deferral election made by a CPC Participant that is irrevocable under Code section 409A on the date the Lifetime Cap is reached shall remain effective.

3.5 **Investment Elections**

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

(b) Participants may elect how their future contributions and existing Account balances will be deemed invested in the various investment funds and may change their elections from time to time. If a Participant does not elect how future contributions will be deemed invested, contributions will be deemed invested in the qualified default investment alternative (“QDIA”) that applies to the Participant under the HIISP.

(c) The deemed investments for a RAC Participant’s RAC Subaccount must be the same as the deemed investments for the RAC Participant’s Company contributions under Section 3.2(b)(1).
(d) Selections of investments, changes and transfers must be made according to the rules and procedures of the Administrative Committee.

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

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

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

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

3.6 Investment Return Not Guaranteed

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

4.1 Accounts

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

4.2 Valuation of Accounts

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

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

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

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

4.3 Use of a Trust

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

5.1 In General
A Participant’s interest in his or her Account will be nonforfeitable, subject to the exceptions in Section 5.2.

5.2 Exceptions
The following exceptions apply to the vesting rule:

(a) A RAC Participant shall become vested in his RAC Subaccount upon completing three years of service. For this purpose, years of service shall be calculated in the same manner as for purposes of determining vesting in Retirement Account Contributions under the HIISP (including the treatment of a break in service).

(b) Forfeitures on account of a lost payee. See Section 6.6.

(c) Forfeitures under an escheat law.

(d) Recapture of amounts improperly credited to a Participant’s Account or improperly paid to or with respect to a Participant.

(e) Expenses charged to a Participant’s Account.

(f) Investment losses.
ARTICLE VI
DISTRIBUTIONS

6.1 Distribution Rules for Non-RAC Amounts.

The rules in this Section 6.1 apply to distribution of a Participant’s Account other than the RAC Subaccount.

Notwithstanding the foregoing, Appendix B governs the distribution of amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005 (and earnings thereon) and are exempt from the requirements of Code section 409A. Thus, this Section 6.1 does not apply to these pre-2005 deferrals, but does apply to all other amounts deferred under the Plan.

(a) Separate Distribution Election. A Participant must make a separate distribution election for each year’s contributions. A Participant generally makes a distribution election at the same time the Participant makes the deferral election, i.e., during the Open Enrollment Period.

(b) Distribution Upon Separation. A Participant may elect on a deferral form to have the portion of his Account related to amounts deferred under the deferral form and Company contributions for the same year (and earnings thereon) distributed in a lump sum or in quarterly or annual installments over a period of 1 to 15 years. Lump sum payments under the Plan will be made in the month following the Participant’s Separation from Service. Installment payments shall commence in the March, June, September or December next following the month of Separation from Service. If a Participant does not make a distribution election and his Account balance exceeds $50,000 and the Participant is age 55 or older at the time the Participant Separates from Service, the Participant will receive quarterly installments over a 10-year period. Otherwise, a Participant not making an election will receive a lump sum payment. Notwithstanding the foregoing, if the Participant’s Account balance is $50,000 or less or the Participant is under age 55 at the time the Participant Separates from Service, the full Account balance shall be distributed in a lump sum payment in the month following the Participant’s Separation from Service.

Notwithstanding the timing rules in the foregoing paragraph, distributions may not be made to a Key Employee upon a Separation from Service before the date which is six months after the date of the Key Employee’s Separation from Service (or, if earlier, the date of death of the Key Employee). Any payments that would otherwise be made during this period of delay shall be accumulated and paid six months after the date payments would have commenced absent the six month delay.

(c) Changes in Form of Distribution. A Participant may make up to two subsequent elections to change the form of a distribution for any year’s deferrals and Company contributions. Such an election, however, shall be effective only if the following conditions are satisfied:
(1) The election may not take effect until at least twelve (12) months after the date on which the election is made; and
(2) The distribution will be made exactly five (5) years from the date the distribution would have otherwise been made.

6.2 Distribution Rules for RAC Subaccount

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

6.3 Effect of Taxation

If Plan benefits are includible in the income of a Participant under Code section 409A prior to actual receipt of the benefits, the Administrative Committee shall immediately distribute the benefits found to be so includible to the Participant.

6.4 Permitted Delays

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

(a) The Company’s deduction with respect to such payment would be eliminated by application of Code section 162(m); or
(b) The making of the payment would violate Federal securities laws or other applicable law;
(c) provided, that any payment delayed pursuant to this Section 6.4 shall be paid in accordance with Code section 409A.

6.5 Payments Not Received At Death

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

6.6 Inability to Locate Participant

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

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

7.1 Committees

(a) The Administrative Committee shall be comprised of the individuals (in their corporate capacity) who are members of the Administrative Committee for Huntington Ingalls Industries Deferred Compensation Plan. If no such Administrative Committee exists, the members of the Administrative Committee for the Plan shall be individuals holding the following positions within the Company (as such titles may be modified from time to time), or their successors in office: the Corporate Vice President and Chief Human Resources and Administration Officer; the Corporate Vice President, Controller and Chief Accounting Officer; the Vice President, Taxation; the Vice President, Compensation, Benefits and HRIS; and the Corporate Director, Benefits Administration and Services. A member of the Administrative Committee may resign by delivering a written notice of resignation to the Corporate Vice President and Chief Human Resources and Administration Officer.

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

7.2 Committee Action

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

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

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

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

7.4 Powers and Duties of the Investment Committee

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

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

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

7.6 Information

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

7.7 Committee Compensation, Expenses and Indemnity

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

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

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

7.8 Disputes

The Company’s standardized “Huntington Ingalls Industries Nonqualified Retirement Plans Claims and Appeals Procedures” shall apply in handling claims and appeals under this Plan.
ARTICLE VIII
MISCELLANEOUS

8.1 Unsecured General Creditor

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

8.2 Restriction Against Assignment

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

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

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

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

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

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

8.3 Restriction Against Double Payment

If a court orders an assignment of benefits despite Section 8.2, the affected Participant’s benefits will be reduced accordingly. The Administrative Committee may use any reasonable actuarial assumptions to accomplish the offset under this Section.

8.4 Withholding

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

8.5 Amendment, Modification, Suspension or Termination

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

Notwithstanding the foregoing, no amendment of the Plan shall apply to amounts that were earned and vested (within the meaning of Code section 409A and regulations thereunder) under the Plan prior to 2005, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent “material modification” to amounts that are “grandfathered” and exempt from the requirements of Code section 409A.
8.6 Governing Law
To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

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

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

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

8.10 Headings
Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.
IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer on this _____ day of _____, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ______________________________________

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

A.1 Cash-Out

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

A.2 Elections

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

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

A.3 Key Employees

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

I. Delay the distributions described above for six months from the date of Separation from Service. The delayed payments will be paid as a single sum with interest at the end of the six month period, with the remaining payments resuming as scheduled.

II. Accelerate the distributions described above into a payment in 2005 without interest adjustments.

III. Key Employees must elect I or II during 2005.
APPENDIX B — DISTRIBUTION RULES FOR PRE-2005 AMOUNTS

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

B.1 Distribution of Contributions

(a) Distributions Upon Early Termination.

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

(2) Involuntary Termination. If a Participant involuntarily terminates employment with the Affiliated Companies before age 55, distribution of his or her Account will generally be made in quarterly or annual installments over a fixed number of whole years not to exceed 15 years, commencing on the Participant’s Payment Date, in accordance with the Participant’s original election on his or her deferral election form. Payment will be made in a lump sum if the Participant had originally elected a lump sum, if the Account balance is $50,000 or less, or if the Administrative Committee so specifies.

(b) Distribution After Retirement, Disability or Death. In the case of a Participant who separates from service with the Affiliated Companies on account of Retirement, Disability or death and has an Account balance of more than $50,000, the Account shall be paid to the Participant (and after his or her death to his or her Beneficiary) in substantially equal quarterly installments over 10 years commencing on the Participant’s Payment Date unless an optional form of benefit has been specified pursuant to Section B.1(b)(1).

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

(i) A lump sum distribution on the Participant’s Payment Date.

(ii) Quarterly installments over a period of at least 1 and no more than 15 years beginning on the Participant’s Payment Date.

(iii) Annual installments over a period of at least 2 and no more than 15 years beginning on the Participant’s Payment Date.

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

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

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

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

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C.1 Plan Mergers

(a) Merged Plans. As of their respective effective dates, the plans listed in (c) (the “Merged Plans”) are merged into this Plan. All amounts from those plans that were merged into this Plan are held in their corresponding Accounts.

(b) Accounts. Effective as of the dates below, Accounts are established for individuals who, before the merger, had account balances under the merged plans. These individuals will not accrue benefits under this Plan unless they become Participants by virtue of being hired into a covered position with an Affiliated Company, but they will be considered Participants for purposes of the merged accounts. The balance credited to the Participant’s merged plan account will, effective as of the date provided in the table below, be invested in accordance with the terms of this Plan. Except as provided in section C.2 below, amounts merged into this Plan from the merged plans are governed by the terms of this Plan.

(c) Table

<table>
<thead>
<tr>
<th>Name of Merged Plans</th>
<th>Merger Effective Dates</th>
<th>Merged Account Names</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northrop Grumman Benefits Equalization Plan</td>
<td>December 10, 2004</td>
<td>NG BEP Account</td>
</tr>
</tbody>
</table>

C.2 Merged Plans — General Rule

(a) NG BEP Account and S & MS Deferred Compensation Account. Distributions from Participants’ NG BEP and S & MS Deferred Compensation Accounts are made under the provisions of Appendix B, except as provided in this Section.

(1) Amounts in the Participant’s NG BEP Account and the S & MS Deferred Compensation Account shall be paid out in accordance with elections made under the Merged Plans.

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(2) The Participant’s “Payment Date” for amounts in the NG BEP Account and the S & MS Deferred Compensation Account shall be deemed to be the end of January following the Participant’s termination of employment.

(3) The reference to $50,000 in the provisions of Appendix B shall be deemed to be $5,000 with respect to amounts in the NG BEP Account and the S & MS Deferred Compensation Account.

(4) The Administrative Committee shall assume the rights and responsibilities of the Directors/Committee with respect to determining whether a Participant’s NG BEP Account may be paid out in a form other than the automatic form of payment.

(5) The Administrative Committee shall assume the rights and responsibilities of the Committee or Special Committee with respect to determining whether a Participant’s S & MS Deferred Compensation Account may be paid out in a form other than the automatic form of payment.

(6) For purposes of determining the time of payment of a Participant’s NG BEP Account, a Participant’s employment will not be deemed to have terminated following the Participant’s layoff until the earlier of the end of the twelve-month period following layoff (without a return to employment with the Affiliated Companies) or the date on which the Participant retires under any pension plan maintained by the Affiliated Companies.

(7) A Participant’s S & MS Deferred Compensation Account shall be paid to the Participant no later than the January 5 next preceding the Participant’s 80th birthday.

(8) In no event will payments of amounts in the Participant’s NG BEP Account and the S & MS Deferred Compensation Account be accelerated or deferred beyond the payment schedule provided under the Merged Plans. However, any election to change the time or form of payment for such an amount may be made based on the terms of the relevant Merged Plan as in effect on October 3, 2004.

(b) BDM Account. Distributions of a Participant’s vested BDM Account balance shall be made in accordance with this Section C.2(b), and Article VI shall not apply to such distributions. A Participant shall be vested in his BDM Account balance in accordance with the vesting provisions of the BDM Plan.

(1) Timing of Payment: A Participant’s vested BDM Account balance shall be distributed in accordance with elections made under the BDM Plan. For those Participants who have not commenced distributions as of April 29, 2005, payments from the BDM Account will commence at the time designated on his or her BDM enrollment and election form, unless extended prior to such date. However, if such a Participant did not elect a fixed date (or elect the earlier of a fixed date or termination of employment), his or her vested BDM Account balance will be paid as soon as administratively practicable following termination of employment in the form designated under Section C.2(b)(2) below.

(2) Form of Payment: A Participant’s vested BDM Account balance shall be paid in cash. The vested BDM Account balance will be paid in (i) a lump sum, (ii) five
(5) or ten (10) substantially equal annual installments (adjusted for gains and losses), or (iii) a combination thereof, as selected by the Participant (or Beneficiary) prior to the date on which amounts are first payable to the Participant (or Beneficiary) under Section C.2(b)(1) above. If the Participant fails to designate properly the manner of payment, such payment will be made in a lump sum.

(3) **Death Benefits**: If a Participant dies before commencement of payment of his BDM Account balance, the entire Account balance will be paid at the times provided in Section C.2(b)(2) above to his or her Beneficiary. If a Participant dies after commencement but before he or she has received all payments from his vested BDM Account balance, the remaining installments shall be paid annually to the Beneficiary. For purposes of this Section C.2(b), a Participant’s Beneficiary, unless subsequently changed, will be the designated beneficiary(ies) under the BDM Plan or if none, the Participant’s spouse, if then living, but otherwise the Participant’s then living descendants, if any, per stirpes, but, if none, the Participant’s estate.

(4) **Lost Participant**: In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within three years following the payment date under Section C.2(b)(1) above, the amount allocated to the Participant’s BDM Account shall be forfeited. If, after such forfeiture and prior to termination of the Plan, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings for the forfeiture period. In lieu of such a forfeiture, the Administrative Committee has the discretion to direct distribution of the vested BDM Account balance to any one or more of the Participant’s next of kin, and in the proportions as the Administrative Committee determines.

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

(6) **Payment Schedule**: In no event will payments of amounts in the Participant’s BDM Account be accelerated or deferred beyond the payment schedule provided under the BDM Plan.

(7) **Application to Trustee**: BDM International, Inc. set aside amounts in a grantor trust to assist it in meeting its obligations under the BDM Plan. Notwithstanding Section C.2(b)(5) above and the claims procedures provided in Section 7.8, a Participant may make application for payment of benefits under this Section C.2(b) directly to the trustee of such trust.

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APPENDIX D — NORTHROP GRUMMAN SPIN-OFF

D.1 Background

The Company was a subsidiary of Northrop Grumman Corporation (“NGC”) prior to the Distribution Date. On the Distribution Date, pursuant to an agreement between the Company and NGC, the liabilities for certain participants’ benefits under the Northrop Grumman Savings Excess Plan (the “NGC Plan”), including grandfathered amounts (i.e., amounts deferred and vested prior to January 1, 2005, and earnings related thereto), were transferred to the Company and to this Plan. The Participants whose benefits were transferred to this Plan on the Distribution Date are referred to below as “NGC Participants.” The rules in this Appendix shall apply to NGC Participants and certain other Plan terms notwithstanding any Plan provisions to the contrary.

D.2 Plan Benefits

NGC Participants who qualified as eligible employees under the NGC Plan on the Distribution Date shall be eligible employees under this Plan on such date. All service and compensation that was taken into account for purposes of determining the amount of a NGC Participant’s benefit or his vested right to a benefit under the NGC Plan as of the Distribution Date shall be taken into account for the same purposes under this Plan, including for purposes of Section 3.4.

D.3 Distributions

The terms of this Plan shall govern the distribution of all benefits payable to a NGC Participant or any other person with a right to receive such benefits, including amounts accrued under the NGC Plan and then transferred to this Plan.

D.4 Termination and Key Employees

For avoidance of doubt, no NGC Participant shall be treated as incurring a separation from service, termination of employment, retirement, or similar event for purposes of determining the right to a distribution (for amounts subject to Code section 409A or otherwise), vesting, benefits, or any other purpose under the Plan as a result of NGC’s distribution of Company shares to NGC’s shareholders. Also, the Company’s Key Employees shall be determined in accordance with the special rules for spin-offs under Treas. Reg. §1.409A-1(i)(6)(iii), or any successor thereto, for the period indicated in such regulation.

D.5 Participant Elections

All elections made by NGC Participants under the NGC Plan, including any deferral elections, payment elections, and beneficiary designations, shall apply to the same effect under this Plan as if made under the terms of this Plan.
D.6 References to Plan

All references in this Plan to the “Plan” as in effect before the effective date of the Plan shall be read as references to the NGC Plan.

D.7 Right to Benefits

With respect to any recordkeeping account established to determine a benefit provided or due under the NGC Plan at any time, no benefit will be due under the Plan except with respect to the portion of such recordkeeping account reflecting the liability transferred from the NGC Plan to the Plan on the Distribution Date. Additionally, on and after the Distribution Date, NGC and the NGC Plan, and any successors thereto shall have no further obligation or liability to any NGC Participant with respect to any benefit, amount, or right due under the NGC Plan.
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INTRODUCTION

The Huntington Ingalls Industries Officers Retirement Account Contribution Plan (the “Plan”) is hereby adopted effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring. This Plan is intended (1) to comply with section 409A of the Internal Revenue Code, as amended (the “Code”) and official guidance issued thereunder, and (2) to be “a plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974. Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with these intentions.

See Appendix A for special rules related to the spin-off of the Company from Northrop Grumman Corporation.

ARTICLE I

DEFINITIONS

1.1 Definitions

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

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

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

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

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

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

(b) Any designation shall be revocable at any time through a written instrument filed by the Participant with the Administrative Committee with or without the consent of the previous Beneficiary.
No designation of a Beneficiary other than the Participant’s spouse shall be valid unless consented to in writing by such spouse. If there is no such designation or if there is no surviving designated Beneficiary, then the Participant’s surviving spouse shall be the Beneficiary. If there is no surviving spouse to receive any benefits payable in accordance with the preceding sentence, the duly appointed and currently acting personal representative of the Participant’s estate (which shall include either the Participant’s probate estate or living trust) shall be the Beneficiary. In any case where there is no such personal representative of the Participant’s estate duly appointed and acting in that capacity within 90 days after the Participant’s death (or such extended period as the Administrative Committee determines is reasonably necessary to allow such personal representative to be appointed, but not to exceed 180 days after the Participant’s death), then Beneficiary shall mean the person or persons who can verify by affidavit or court order to the satisfaction of the Administrative Committee that they are legally entitled to receive the benefits specified hereunder. Any payment made pursuant to such determination shall constitute a full release and discharge of the Plan, the Administrative Committee and the Company. A Participant will automatically revoke a designation of a spouse as primary beneficiary upon the dissolution of their marriage.

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

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

“Board” shall mean the Board of Directors of the Company.
“Code” shall mean the Internal Revenue Code of 1986, as amended.
“Committees” shall mean the Committees appointed as provided in Article VI.
“Company” shall mean Huntington Ingalls Industries, Inc. and any successor.
“Company Contributions” shall mean credits to a Participant’s Account, as described in Section 3.2.
“Compensation” shall be “compensation” as defined by Section 5.01 of the HIISP.
“Eligible Employee” shall mean any Employee who meets the following conditions:

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

(b) he or she is not eligible to accrue benefits under a Company-sponsored qualified defined benefit pension plan;

(c) he or she is not eligible to actively accrue benefits under Appendix F (“CPC SERP”), Appendix G (“OSERP”), or Appendix I (“OSERP II”) of the Huntington Ingalls Industries Supplemental Plan 2; and

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

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

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

“HIISP” means the Huntington Ingalls Industries Savings Plan.

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

“Key Employee” means an employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (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 twelve (12) month period commencing on April 1 of the following year.

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

“Plan” shall be the Huntington Ingalls Industries Officers Retirement Account Contribution Plan.

“Separation from Service” means a “separation from service” within the meaning of Code section 409A.
ARTICLE II
PARTICIPATION

2.1 In General
(a) An Employee shall automatically become a Participant and eligible for Company Contributions as of the date the Employee becomes an Eligible Employee.
(b) An individual will cease to be a Participant when he or she no longer has a positive balance in his or her Account.

2.2 Disputes as to Employment Status
(a) Because there may be disputes about an individual’s proper status as an Employee or non-Employee, this Section describes how such disputes are to be handled with respect to Plan participation.
(b) The Affiliated Companies will make the initial determination of an individual’s employment status.
(1) If an individual is not treated by the Affiliated Companies as a common law employee, then the Plan will not consider the individual to be an “Eligible Employee” and he or she will not be entitled to participate in the Plan.
(2) This will be so even if the individual is told he or she is entitled to participate in the Plan and given a summary of the plan or other actions are taken indicating that he or she may participate.
(c) Disputes may arise as to an individual’s employment status. As part of the resolution of the dispute, an individual’s status may be changed by the Affiliated Companies from non-Employee to Employee. Such Employees are not Eligible Employees and will not be entitled to participate in the Plan.

ARTICLE III
CREDITS TO ACCOUNTS

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

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

3.3 Earnings Credits

A Participant’s Account will be periodically credited with earnings, gains and losses as if the Account was invested in the same investment options as the Participant’s RAC Subaccount in the Huntington Ingalls Industries Savings Excess Plan. If a Participant does not have such a RAC Subaccount, his Account will be credited with earnings, gains and losses as if the Account was invested in the qualified default investment alternative (“QDIA”) that applies to the Participant under the HIISP.

3.4 Valuation of Accounts

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

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

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

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

3.5 Use of a Trust

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

3.6 Investment Return Not Guaranteed

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

4.1 In General
A Participant shall become vested in his Account balance upon completing three years of service. For this purpose, years of service shall be calculated in
the same manner as for purposes of determining vesting in Retirement Account Contributions under the HIISP (including the treatment of a break in service).

4.2 Exceptions
The following exceptions apply to the vesting rule:
(a) Forfeitures on account of a lost payee. See Section 5.5.
(b) Forfeitures under an escheat law.
(c) Recapture of amounts improperly credited to a Participant’s Account or improperly paid to or with respect to a Participant.
(d) Expenses charged to a Participant’s Account.
(e) Investment losses.

ARTICLE V
DISTRIBUTIONS

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

5.2 Effect of Taxation
If Plan benefits are includible in the income of a Participant under Code section 409A prior to actual receipt of the benefits, the Administrative
Committee shall immediately distribute the benefits found to be so includible to the Participant.
5.3 **Permitted Delays**

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

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

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

(c) provided, that any payment delayed pursuant to this Section 5.3 shall be paid in accordance with Code section 409A.

5.4 **Payments Not Received At Death**

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

5.5 **Inability to Locate Participant**

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

5.6 **Committee Rules**

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

**ARTICLE VI**

**ADMINISTRATION**

6.1 **Committees**

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

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

6.2 Committee Action

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

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

6.3 Powers and Duties of the Administrative Committee

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

(a) To construe and interpret the terms and provisions of this Plan and make all factual determinations;

(b) To compute and certify to the amount and kind of benefits payable to Participants and their Beneficiaries;

(c) To maintain all records that may be necessary for the administration of the Plan;

(d) To provide for the disclosure of all information and the filing or provision of all reports and statements to Participants, Beneficiaries or governmental
agencies as shall be required by law;

(e) To make and publish such rules for the regulation of the Plan and procedures for the administration of the Plan as are not inconsistent with the terms
hereof;

(f) To appoint a Plan administrator or any other agent, and to delegate to them such powers and duties in connection with the administration of the Plan
as the Administrative Committee may from time to time prescribe (including the power to subdelegate);
(g) To exercise powers granted the Administrative Committee under other Sections of the Plan; and

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

6.4 Powers and Duties of the Investment Committee

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

(a) To oversee any rabbi trust; and

(b) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

6.5 Construction and Interpretation

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

6.6 Information

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

6.7 Committee Compensation, Expenses and Indemnity

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

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

(c) To the extent permitted by ERISA and applicable state law, the Company shall indemnify and hold harmless the Committees and each member thereof, the Board and any delegate of the Committees who is an employee of the Affiliated Companies against any and all expenses, liabilities and claims, including legal fees to defend against such liabilities and claims arising out of their discharge in good faith of responsibilities under or incident to the Plan, other

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than expenses and liabilities arising out of willful misconduct. This indemnity shall not preclude such further indemnities as may be available under insurance purchased by the Company or provided by the Company under any bylaw, agreement or otherwise, as such indemnities are permitted under ERISA and state law.

6.8 Claims

The Company’s standardized “Huntington Ingalls Industries Nonqualified Retirement Plans Claims and Appeals Procedures” shall apply in handling claims and appeals under this Plan.

ARTICLE VII
MISCELLANEOUS

7.1 Unsecured General Creditor

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

7.2 Restriction Against Assignment

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

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

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

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

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

7.3 Restriction Against Double Payment

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

7.4 Withholding

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

7.5 Amendment, Modification, Suspension or Termination

The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant’s Account balance as of the date of such amendment or termination. Upon termination of the Plan, distribution of balances in Accounts shall be made to Participants and Beneficiaries in the manner and at the time described in Article V, unless the Company determines in its sole discretion that all such amounts shall be distributed upon termination in accordance with the requirements under Code section 409A.
7.6 **Governing Law**
To the extent not preempted by ERISA, this Plan shall be construed, governed and administered in accordance with the laws of Delaware.

7.7 **Receipt and Release**
Any payment to a payee in accordance with the provisions of the Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan, the Committees and the Affiliated Companies. The Administrative Committee may require such payee, as a condition precedent to such payment, to execute a receipt and release to such effect.

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

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

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

* * *

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IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer on this _____ day of _____, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ____________________________

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APPENDIX A

NORTHROP GRUMMAN SPIN-OFF

1. **Background.** The Company was a subsidiary of Northrop Grumman Corporation (“NGC”) prior to the Distribution Date. On the Distribution Date, pursuant to an agreement between the Company and NGC, the liabilities for certain participants’ benefits under the Northrop Grumman Officers Retirement Account Contribution Plan (the “NGC Plan”) were transferred to the Company and to this Plan. The Participants whose benefits were transferred to this Plan on the Distribution Date are referred to below as “NGC Participants.” The rules in this Appendix shall apply to NGC Participants and certain other Plan terms notwithstanding any Plan provisions to the contrary.

2. **Plan Benefits.** NGC Participants who qualified as eligible employees under the NGC Plan on the Distribution Date shall be eligible employees under this Plan on such date. All service and compensation that was taken into account for purposes of determining the amount of a NGC Participant’s benefit or his vested right to a benefit under the NGC Plan as of the Distribution Date shall be taken into account for the same purposes under this Plan.

3. **Distributions.** The terms of this Plan shall govern the distribution of all benefits payable to a NGC Participant or any other person with a right to receive such benefits, including amounts accrued under the NGC Plan and then transferred to this Plan.

4. **Termination and Key Employees.** For avoidance of doubt, no NGC Participant shall be treated as incurring a separation from service, termination of employment, retirement, or similar event for purposes of determining the right to a distribution (for amounts subject to Code section 409A or otherwise), vesting, benefits, or any other purpose under the Plan as a result of NGC’s distribution of Company shares to NGC’s shareholders. Also, the Company’s Key Employees shall be determined in accordance with the special rules for spin-offs under Treas. Reg. §1.409A-1(i)(6)(iii), or any successor thereto, for the period indicated in such regulation.

5. **Participant Elections.** All elections made by NGC Participants under the NGC Plan, including any beneficiary designations, shall apply to the same effect under this Plan as if made under the terms of this Plan.

6. **References to Plan.** All references in this Plan to the “Plan” as in effect before the effective date of the Plan shall be read as references to the NGC Plan.

7. **Right to Benefits.** With respect to any recordkeeping account established to determine a benefit provided or due under the NGC Plan at any time, no benefit will be due under the Plan except with respect to the portion of such recordkeeping account reflecting the liability transferred from the NGC Plan to the Plan on the Distribution Date. Additionally, on and after the Distribution Date, NGC and the NGC Plan, and any
successors thereto shall have no further obligation or liability to any NGC Participant with respect to any benefit, amount, or right due under the NGC Plan.

A-2
HII NEWPORT NEWS SHIPBUILDING INC.
RETIREMENT BENEFIT RESTORATION PLAN

Article I
ESTABLISHMENT & PURPOSE

1.1 Establishment. Effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring, the Company has adopted this retirement benefit restoration plan known as the HII Newport News Shipbuilding Inc. Retirement Benefit Restoration Plan (the “Plan”) for the benefit of a select group of highly compensated employees and their Surviving Spouses. The Plan is established to receive liabilities transferred from the Newport News Shipbuilding Inc. Retirement Benefit Restoration Plan, including Grandfathered Amounts. See Appendix D for special rules related to the spin-off of the Company from Northrop Grumman Corporation.

1.2 Purpose. The purpose of the Plan is to provide retirement income and supplemental death benefits for eligible Participants to supplement the benefits provided under the HII Newport News Shipbuilding Inc. Retirement Plan and to enable the Company and any adopting Employers to attract and retain certain key executives. The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

Article II
DEFINITIONS

As used herein, the following words and phrases have the meanings ascribed to them in Article II unless a different meaning is plainly required by the context. Some of the words and phrases used in the Plan are not defined in this Article II, but, for convenience, are defined as they are introduced into the text. Words in the masculine gender shall be deemed to include the feminine gender and words in the feminine gender shall be deemed to include the masculine gender. Any headings used herein are included for ease of reference only, and are not to be construed so as to alter any of the terms of the Plan.

2.1 “Accrued Benefit” as of a specified date with respect to a Participant means a monthly benefit equal to (a) minus (b) minus (c) below (but NOT less than zero) where

(a) means the amounts described in (1) and (2) below.

(1) Cash Balance Piece. Effective for periods after December 31, 2003, a Participant is credited with Benefit Credits (as defined under the Qualified Plan) he or she would have received:
(A) but for the restrictions of Code sections 401(a)(17) or 415, as those limits are described by the Qualified Plan; and

(B) but for the fact he or she made deferrals to the Huntington Ingalls Industries Deferred Compensation Plan or the Huntington Ingalls Industries Savings Excess Plan.

For purposes of (B), the Benefit Credits earned are credited in accordance with the terms of the Qualified Plan applicable to Eligible Pay in excess of the Social Security Wage Base and any compensation deferred is only treated as compensation with respect to the calendar year in which it was earned by the Participant, without regard to the calendar year in which it was paid to the Participant.

(2) Historical and Transition Piece. Effective for periods prior to December 31, 2003, a Participant is credited with the retirement benefit, if any, that would have been payable under the terms of the Qualified Plan modified as follows:

(A) Years of Participation under the Qualified Plan shall be treated as also including “years of participation” used to calculate the Participant’s benefit under the Tenneco, Inc. Retirement Plan.

(B) Compensation under the Qualified Plan shall be treated as also including amounts deferred under the Newport News Shipbuilding Inc. Deferred Compensation Plan, Northrop Grumman Deferred Compensation Plan, or Northrop Grumman Savings Excess Plan.

(C) Solely for employees in positions designated as ECP Level 5 or above, the following shall be substituted for the definition of Covered Compensation and Final Average Compensation under the Qualified Plan.

   (i) Compensation for such purposes shall mean the sum of (a) the average of the Participant’s regular base compensation for the five most recent years, expressed as an annual amount, and (b) the average of the Participant’s actual short-term incentive compensation earned for the five most recent full calendar years, expressed as an annual award amount.

   (ii) Short-term incentive compensation shall be included as Covered Compensation with respect to the calendar year in which it was earned by the Participant, without regard to the calendar year in which it was paid to the Participant.
(iii) Short-term incentive compensation shall mean only annual bonuses based on company and/or individual employee performance criteria and paid to the Participant in cash or deferred under a deferred compensation plan, and shall not include signing bonuses, relocation allowances, long-term incentive awards, stock options, performance share grants, expense allowances or reimbursements, or any other compensation.

(iv) In the event a Participant has been employed by an Employer for less than five years during the most recent five years, the average of his regular base compensation and short-term incentive compensation for the years the Participant was employed by an Employer during the five most recent years will be used for purposes of calculating Compensation under this Section.

(v) Notwithstanding the foregoing, and except in the event of a Change in Control within the meaning of the Company’s Change in Control Severance Benefit Plan for Key Executives (as amended and restated), a Participant’s short-term incentive compensation earned for any calendar year prior to 1998 shall be deemed to be $0 (zero) solely for purposes of calculating his or her Final Average Compensation.

(vi) In the event of a Change in Control, the Participant’s short-term incentive compensation earned for any calendar year prior to 1998 shall be the actual bonus amount paid to the Participant in cash or deferred under a deferred compensation plan.

(D) The vested benefit payable under the Qualified Plan shall be calculated without applying Sections 415 and 401(a)(17) of the Code, as adjusted by the Secretary of the Treasury for any plan year, or the successor of such Sections.

The benefit described in this subsection (a) shall be expressed as a Life Annuity commencing at the Participant’s Normal Retirement Date.

(b) means the sum of: (i) the monthly vested benefit payable to the Participant under the Qualified Plan (including any annuity purchased for him under the provisions of the Qualified Plan); plus (ii) the monthly vested benefit that would be payable to the Participant under the Tenneco Inc. Retirement Plan if the Participant commenced receiving his benefit on the Participant’s Normal Retirement Date.
The benefit described in subsection (b)(i) shall be expressed as a Life Annuity commencing on the Participant’s Normal Retirement Date. The benefit described in subsection (b)(ii) shall be the benefit that would actually be payable under the Tenneco Inc. Retirement Plan if the Participant commenced such benefits on his Normal Retirement Date in the form of a Life Annuity using the appropriate interest rates and mortality tables specified in the plan.

(c) means the monthly vested Tenneco Restoration Benefit. The “Tenneco Restoration Benefit” shall mean the monthly benefit payable under the Tenneco Inc. Supplemental Executive Retirement Plan determined as of December 31, 1996, but not more than (i) the monthly vested benefit payable to the Participant under the Tenneco Inc. Retirement Plan calculated without applying Sections 415(b)(1)(A), 415(e), and 401(a)(17) of the Code less (ii) the monthly vested benefit payable to the Participant under the Tenneco Inc. Retirement Plan. The amounts under subsection (c)(i) and (c)(ii) shall likewise be determined as of December 31, 1996.

The benefit described in subsection (c)(i) shall be expressed as an actuarially equivalent Life Annuity commencing on the Participant’s Normal Retirement Date. The benefit described in subsection (c)(ii) shall be the benefit that would actually be payable under the Tenneco Inc. Retirement Plan if the Participant commenced such benefits on his Normal Retirement Date in the form of an actuarially equivalent Life Annuity. In both instances, actuarial equivalence shall be determined using the appropriate interest rates and mortality tables specified in the appropriate plan.

The following shall not be considered as compensation for purposes of determining the amount of any benefit under the Plan: (1) any payment authorized by the Company’s Compensation Committee that is (i) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Plan (AIP) for a given year, and (ii) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, and (2) any award payment under any Huntington Ingalls Industries long-term incentive cash plan.

2.2 “Actuarial Equivalent” shall mean a benefit which is of equal value at the date of determination to the benefit for which it is to be substituted. Actuarial Equivalence shall be based on the interest and mortality tables used to determine actuarial equivalence under the Qualified Plan.

2.3 “Affiliated Companies” shall mean the Company and any other entity related to the Company under the rules of Code section 414.

2.4 “Annuity Starting Date” shall mean the first day of the first period for which an amount is payable as an annuity, or in the case of a benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant to such a benefit and on which payment is due under the Plan.
2.5 “Associated Employer” means any corporation which has been designated as an Associated Employer by the Board of Directors and which has adopted the Plan.

2.6 “Beneficiary” shall mean the person or entity designated by a Participant to receive benefits under this Plan. This designation shall be made on a beneficiary designation form provided by the Plan Administrator, signed by such Participant, and filed with the Plan Administrator.

2.7 “Board of Directors” or “Board” shall mean the Board of Directors of the Company.

2.8 “Change in Control” shall mean the first to occur of the following events (but no event other than the following events), except as otherwise provided below:

(a) Any Person (other than those Persons in control of the Company as of the Effective Date, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing thirty three and one-third percent (33-1/3%) or more of the combined voting power of the Company’s then outstanding securities; provided, however, that such an acquisition shall not constitute a Change in Control if made by an entity pursuant to a merger, consolidation or reorganization that is covered by and does not otherwise constitute a Change in Control under subsection (c) below. For purposes of this Section:

(1) the terms “Person” or “group” shall not include underwriters acquiring newly-issued voting securities (or securities convertible into voting securities) directly from the Company with a view towards distribution; and

(2) the terms “Person” and “Beneficial Owner” shall have the meaning set forth in Sections 3(a) and 13(d) of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.

(b) On any day after the Effective Date (the “Measurement Date”) Continuing Directors cease for any reason to constitute a majority of the Board of Directors of the Company. A director is a “Continuing Director” if he or she either:

(1) was a member of the Board of Directors of the Company on the applicable Initial Date (an “Initial Director”); or

(2) was elected to the Board of Directors of the Company, or was nominated for election by the Company’s stockholders, by a vote of at least two-thirds (2/3) of the Initial Directors then in office.

A member of the Board of Directors of the Company who was not a director on the applicable Initial Date shall be deemed to be an Initial Director for purposes of
clause (2) above if his or her election, or nomination for election by the Company’s stockholders, was approved by a vote of at least two-thirds (2/3) of the Initial Directors (including directors elected after the applicable Initial Date who are deemed to be Initial Directors by application of this provision) then in office. “Initial Date” means the later of (1) the Effective Date or (2) the date that is two years before the Measurement Date.

(c) The Company is liquidated; all or substantially all of the Company’s assets are sold in one or a series of related transactions; or the Company is merged, consolidated, or reorganized with or involving any other corporation, other than a merger, consolidation, or reorganization that results in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation, or reorganization. Notwithstanding the foregoing, an event described in this paragraph (c) that occurred prior to the Effective Date shall not constitute a Change in Control.

2.9 “Code” shall mean the Internal Revenue Code of 1986, as amended. Reference to a section of the Code shall include that section and any comparable section or sections of any future legislation that amends, supplements, or supersedes such section.

2.10 “Committee” shall mean the Committees as described in Article VI.

2.11 “Company” shall mean Huntington Ingalls Industries, Inc.

2.12 “Death Benefit” means the Benefit described in Section 4.4 payable at the Participant’s death.

2.13 “Early Retirement Date” shall mean the date as of which the Participant commences an Early Retirement Benefit pursuant to Section 3.2 of the Qualified Plan.

2.14 “Effective Date” shall mean the Distribution Date.

2.15 “Employer” shall mean Newport News Shipbuilding Inc., or any successor thereto, and any Associated Employer.

2.16 “Grandfathered Amount” shall mean Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.

2.17 “Hour of Service” shall have the same meaning as set forth in Article I of the Qualified Plan.

2.18 “Key Employee” shall mean an employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (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 twelve (12) month period commencing on April 1 of the following year.

2.19 “Life Annuity” shall mean a series of monthly installments which will continue for the lifetime of the Participant and will cease upon his death.

2.20 “Normal Retirement Date” shall have the same meaning as set forth in Article I of the Qualified Plan.

2.21 “Participant” shall mean any employee of an Employer who becomes eligible to participate in the Plan pursuant to Article III and who continues to be entitled to any benefits under the Plan.

2.22 “Payment Date” shall mean the 1st of the month coincident with or following the later of (a) the date the Participant attains age 55, or (b) the date the Participant Separates from Service.

2.23 “Pension Plan” and “Pension Plans” shall mean any of the following:
   (a) The Northrop Grumman Retirement Plan
   (b) The Northrop Grumman Retirement Plan—Rolling Meadows Site
   (c) The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
   (d) The Northrop Grumman Electronics Systems — Space Division Salaried Employees’ Pension Plan (effective as of the Aerojet Closing Date)
   (e) The Northrop Grumman Electronics Systems — Space Division Union Employees’ Pension Plan (effective as of the Aerojet Closing Date)

“Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.

2.24 “Plan” shall mean the HII Newport News Shipbuilding Inc. Retirement Benefit Restoration Plan.
2.25 “Plan Year” shall mean the calendar year.

2.26 “Qualified Plan” shall mean the HII Newport News Shipbuilding Inc. Retirement Plan. In the event the Qualified Plan is subsequently amended, reference to a Section of the Qualified Plan shall be deemed to refer to the operational successor of such Section. In addition, capitalized terms used in this Plan that are not defined in the Plan are taken from the Qualified Plan and are intended to have the same meaning as in the Qualified Plan, including any successor thereto.

2.27 “Rabbi Trust” means a trust described in Code Section 671, which shall be established in connection with this Plan.

2.28 “Retirement” shall mean termination of employment with all Employers at a time when the Participant is eligible for an Early or Normal Retirement Benefit.

2.29 “Retirement Benefit” means the Benefit described in Section 4.1 payable at the Participant’s Retirement Date.

2.30 “Retirement Date” shall mean the Participant’s Early or Normal Retirement Date.

2.31 “Separation from Service” or “Separates from Service” shall mean a “separation from service” within the meaning of Code section 409A.

2.32 “Spouse” shall mean the person legally married to the Participant at his Annuity Starting Date.

2.33 “Surviving Spouse” shall mean the person legally married to the Participant at his date of death.

2.34 “Years of Participation” shall have the same meaning as set forth in Article I of the Qualified Plan.

2.35 “Years of Service” shall have the same meaning as set forth in Article I of the Qualified Plan.

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### Article III

#### PLAN PARTICIPATION

3.1 Eligibility to Participate in the Plan. Each participant in the Qualified Plan who satisfies both (a) and (b) below is eligible to participate in the Plan.

(a) The employee’s accrued benefit under the Qualified Plan is reduced as a result of the application of Section 415(b)(1)(A), 415(e), or 401(a)(17) of the Code, or the employee is in a position designated as ECP Level 5 or above.
3.2 Participation. A Participant shall remain a Participant so long as he is entitled to current or contingent benefits under the Plan, but shall cease to be a Participant if he terminates employment with all Employers prior to the date he becomes eligible for payment of benefits under Article IV of the Plan. Should a Participant cease to be an employee, but later become re-employed by an Employer, he shall again become a Participant when he satisfies the requirements of Section 3.1.

3.3 Select Group of Employees. The Plan is intended to qualify as a plan maintained by the Employers primarily for the purpose of providing deferred compensation for a select group of highly compensated employees, and, as such, to be exempt from certain provisions of the Employee Retirement Income Security Act of 1974, as amended. If the Company determines based on subsequent authority or if an agency or court of competent jurisdiction determines that the Plan benefits any person other than a member of the select group of management or highly compensated employees as per ERISA sections 201, 301, or 401 (and the period for appeal of such determination has elapsed), the participation of each employee who is determined not to be included in such group shall be terminated retroactive to the date on which his benefit under the Qualified Plan was first reduced as a result of the application of Section 415(b)(1)(A), 415(e), or 401(a)(17) of the Code. Such employee shall forfeit any Accrued Benefit, regardless of whether such benefit is otherwise vested and shall cease to accrue any additional benefit under the Plan.

Article IV
BENEFITS

4.1 Retirement Benefits. Except as otherwise provided herein, retirement benefits will be computed and paid as follows:

(a) Normal Retirement Benefit shall be equal to the Participant’s Accrued Benefit determined at the Participant’s termination of employment on or after his Normal Retirement Date and commencing on such termination of employment. If the Participant remains employed after his Normal Retirement Date, the Accrued Benefit under Section 2.1 shall be calculated by substituting the Participant’s date of termination of employment for his Normal Retirement Date.

(b) Early Retirement Benefit shall be equal to the Participant’s Accrued Benefit, reduced for early commencement using the actuarial reduction factors set forth below, determined at the Participant’s Early Retirement Date and commencing on such date:

(1) at age 60 (or thereafter up to age 62), a .25% reduction for each month early retirement precedes age 62; and
The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

4.2 Termination of Service. A Participant shall be entitled to a monthly retirement benefit if he terminates before he is eligible to receive a Retirement Benefit, provided that a Participant meets the vesting requirements of Article V. The Participant’s benefit on his termination of employment shall be the Participant’s Accrued Benefit at the date of termination of employment, commencing on the Participant’s Normal Retirement Date. However, if a Participant who has completed 10 Years of Service and whose employment terminated before age 55 elects to commence his benefit under the Qualified Plan on a date on or after his or her 55th birthday, the Participant’s vested benefit under this Plan shall likewise commence on that date, but shall be reduced to the Actuarial Equivalent of the benefit that would have commenced on his Normal Retirement Date.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

4.3 Form of Retirement Benefit. Except as provided in the last paragraph of this Section the Participant’s benefit under this Plan shall be paid in the same form as the Participant’s benefit under the Qualified Plan. Benefits under this section shall be the Actuarial Equivalent of the Benefit payable in the form of a Life Annuity.

Notwithstanding the above, a Participant who separates from service or retires with a vested Accrued Benefit shall be paid the Actuarial Equivalent of such benefit in a single sum as soon as practicable after his retirement or termination of employment if such Actuarial Equivalent does not exceed ten thousand dollars ($10,000). (See Section 4.8 for the rule that applies as of January 1, 2008). If the Participant subsequently resumes participation in the Plan, such Participant’s benefit at his later date of termination shall be reduced by his prior Accrued Benefit determined as of the date of his previous retirement or termination.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

4.4 Death Benefit. If death occurs before the Participant’s Annuity Starting Date, a monthly benefit for life shall be payable to the Surviving Spouse of the Participant. The amount of such benefit shall be equal to (a) minus (b) minus (c) below (but not less than zero) where

(a) means the death benefit that would have been payable to the Surviving
Spouse under the Qualified Plan calculated as if Years of Participation under the Qualified Plan also include “years of participation” used to calculate the Participant’s benefit under the Tenneco Inc. Retirement Plan and calculated without applying Sections 415(b)(1)(A), 415(e) and 401(a)(17) of the Code, as adjusted by the Secretary of the Treasury for any plan year, or the successor of such Section. The benefit described in this subsection (a) shall be expressed as a Life Annuity commencing on the date the death benefit under the Qualified Plan commences.

(b) means the sum of: (i) the vested death benefit payable to the Surviving Spouse under the Qualified Plan (including any annuity purchased under the provisions of the Qualified Plan); plus (ii) the vested death benefit that would be payable to the Surviving Spouse under the Tenneco Inc. Retirement Plan if the Surviving Spouse commenced such benefit on the date the death benefit under the Qualified Plan commences.

The benefit described in subsection (b)(i) shall be expressed as a Life Annuity commencing on the date the death benefit under the Qualified Plan commences. The benefit described in subsection (b)(ii) shall be the death benefit that would actually be payable under the Tenneco Inc. Retirement Plan if the Surviving Spouse commenced such benefit on the date the death benefit under the Qualified Plan commences in the form of a Life Annuity using the appropriate interest rates and mortality tables specified in the plan.

(c) means the vested Tenneco Restoration Death Benefit. The “Tenneco Restoration Death Benefit” shall mean the death benefit payable under the Tenneco Inc. Supplemental Executive Retirement Plan determined as of December 31, 1996, but not more than (i) the vested death benefit payable to the Surviving Spouse under the Tenneco Inc. Retirement Plan calculated without applying Sections 415(b)(1)(A), 415(e), and 401(a)(17) of the Code less (ii) the vested death benefit payable to the Surviving Spouse under the Tenneco Inc. Retirement Plan. The amounts under subsection (c)(i) and (c)(ii) shall likewise be determined as of December 31, 1996.

The death benefit described in subsection (c)(i) shall be expressed as an actuarially equivalent Life Annuity commencing on the date the death benefit under the Qualified Plan commences. The death benefit described in subsection (c)(ii) shall be the death benefit that would actually be payable under the Tenneco Inc. Retirement Plan if the Surviving Spouse commenced such benefit on the date the death benefit under the Qualified Plan commences in the form of an actuarially equivalent Life Annuity. In both instances, actuarial equivalence shall be determined using the appropriate interest rates and mortality tables specified in the appropriate plan.

Notwithstanding the above, a Surviving Spouse shall be paid the Actuarial Equivalent of such benefit in a single sum as soon as practicable after the Participant’s death if such
Actuarial Equivalent does not exceed ten thousand dollars ($10,000). (See Section 4.8 for the rule that applies as of January 1, 2008)

If death occurs on or after the Participant’s Annuity Starting Date, the only Death Benefit payable is the survivor benefit payable in accordance with the form of payment applicable to the Participant’s Retirement Benefit in accordance with Section 4.3.

The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

4.5 Time of Payment. Except as provided in Section 4.3, payment of a Participant’s benefit under this Article shall commence on the day the death benefit under the Qualified Plan commences. The distribution rules of this Section only apply to Grandfathered Amounts. See Appendix B and Appendix C for the distribution rules that apply to other benefits earned under the Plan.

4.6 Suspension of Benefits. In the event that benefit payments are suspended under Section 2.3 of the Qualified Plan, payments of Grandfathered Amounts under this Plan shall likewise be suspended. Upon the Participant’s subsequent Retirement or other termination of employment, the Participant’s Accrued Benefit under Section 2.1 shall be recalculated based on the terms of this Plan and the Qualified Plan at the time of such subsequent Retirement or other termination of employment without reduction for any amounts received prior to reemployment. The Accrued Benefit under Section 2.1 shall then be reduced by the Actuarial Equivalent of any benefits paid under this Plan prior to reemployment.

The Plan Administrator shall establish procedures for the resumption of benefits and the offsetting of benefit overpayments, if any.

4.7 Income and Payroll Tax Withholding. To the extent required by the laws in effect at the time deferred compensation payments are made under this Plan, the Employer shall withhold from such deferred compensation payments any taxes required to be withheld for federal, state, or local government purposes.

4.8 Mandatory Cashout. Notwithstanding any other provisions in the Plan, Participants with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

(a) Post-2007 Terminations. Participants who have a complete termination of employment with the Affiliated Companies after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of such termination (without interest), if such present value is below the Code section 402(g) limit in effect at the termination.
(b) Pre-2008 Terminations. Participants who had a complete termination of employment with the Affiliated Companies before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.

4.9 Optional Payment Forms. Participants with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

(a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.

(b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

<table>
<thead>
<tr>
<th>Interest Rate:</th>
<th>6%</th>
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<tbody>
<tr>
<td>Mortality Table:</td>
<td>RP-2000 Mortality Table projected 15 years for future standardized cash balance factors</td>
</tr>
</tbody>
</table>

4.10 Special Tax Distribution. On the date a Participant’s retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Participant’s portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will be based on all benefits under the Plan, including Grandfathered Amounts. This payment will reduce the Participant’s future benefit payments under the Plan on an actuarial basis.

4.11 Benefit Limit. The amount of the benefit under this Plan will be limited as provided below:

(a) A Participant’s total accrued benefits under all defined benefit plans, programs, and arrangements maintained by the Company and its affiliates (as determined under Code section 414) in which he or she participates, including the Plan, may not exceed 60% of his or her Final Average Salary. If this limit is exceeded, the Participant’s benefit accrued under the Plan will be reduced to the extent necessary to satisfy the limit.

(1) For this purpose, “Final Average Salary” has the meaning provided under Appendix G to the Hunting Ingalls Industries Supplemental Plan 2 (the “OSERP”).

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(2) The Participant’s Final Average Salary will be reduced for early retirement applying the factors in the OSERP.

(3) The limit in this subsection may not be exceeded even after the benefits under the Plan have been enhanced under any change in control agreements or Huntington Ingalls Industries, Inc. Special Agreements.

Article V
VESTING

5.1 Vesting. Except as provided in Section 3.3, a Participant shall be 100% vested in his Accrued Benefit after completion of five Years of Service or on the occurrence of a Change in Control. Provided, however, that if a Participant’s employment with an Employer is terminated for Cause prior to Retirement, the Participant’s Accrued Benefit shall be forfeited. Termination for Cause shall mean termination on account of dishonesty or any act or conduct on the part of the Participant which is materially injurious to the business or reputation of any Employer.

Article VI
PLAN ADMINISTRATION

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

6.2 Committee Action.

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

(b) The Board shall appoint a Chairman from among the members of the Administrative Committee and a Secretary who may or may not be a member of the Administrative Committee. The members of the Investment Committee will
elect one of their members as Chairman and will appoint a Secretary and any other officers as the Investment Committee may deem necessary. The Committees shall conduct their business according to the provisions of this Article and the rules contained in the current edition of Robert’s Rules of Order or such other rules of order the Committees may deem appropriate. The Committees shall hold meetings from time to time in any convenient location.

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

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

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

(a) To select types of investment and the actual investments against which earnings and losses will be measured;
(b) To oversee the rabbi trust; and

(c) To appoint agents, and to delegate to them such powers and duties in connection with its duties as the Investment Committee may from time to time prescribe (including the power to subdelegate).

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

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

6.7 Committee Compensation, Expenses and Indemnity.

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

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

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

7.1 Amendment and Termination of the Plan. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not a Participant has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of a Participant’s accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent “material modification” to the Grandfathered Amounts.

Article VIII
GENERAL PROVISIONS

8.1 Funding. Benefits payable under this Plan to a Participant shall be paid directly from the general assets of the Employer. No Employer shall be obligated to set aside, earmark or escrow any funds or other assets to satisfy its obligations under this Plan, and the Participant and his Surviving Spouse shall not have any property interest in any specific assets of any Employer other than the unsecured right to receive payments from the Employer as provided herein. Notwithstanding the foregoing, in the event of a Change in Control, the Company shall fund all Accrued Benefits payable under this Plan through a trust described in Code section 671 with respect to which the Company is the grantor (a “Rabbi Trust”). Prior to a Change in Control, the Company shall not be obligated to deposit funds into such Rabbi Trust.

8.2 Nonalienation of Benefits under this Plan. Except for claims of indebtedness owing to an Employer (with respect to Grandfathered Amounts), the interests of Participants and their Beneficiaries under this Plan are not subject to the claims of their creditors and may not be voluntarily or involuntarily sold, transferred, alienated, assigned, pledged, anticipated, or encumbered. Any attempt by a Participant, his Beneficiary, or any other person to sell, transfer, alienate, assign, pledge, anticipate, encumber, charge or otherwise dispose of any right to benefits payable hereunder shall be void. The Employer may cancel and refuse to pay any portion of a benefit which is sold, transferred, alienated, assigned, pledged, anticipated or encumbered.

8.3 Plan not a Contract of Employment. This Plan shall not be deemed to constitute a contract of employment between any Employer and any Participant or to be a consideration or an inducement for the employment or continued employment of any Participant or Employee. Nothing contained in this Plan shall be deemed to give any Participant or Employee the right to be retained in the service of any Employer or to
interfere with the right of any Employer to discharge any Participant or employee at any time regardless of the effect which such discharge shall have upon such individual as a Participant in the Plan.

8.4 Required Notification to Plan Administrator. Each Participant entitled to benefits hereunder shall file with the Plan Administrator from time to time in writing his post office address and each change of post office address. Any check representing payment hereunder and any communication addressed to a Participant or a former Participant hereunder at his last address filed with the Plan Administrator, or if no such address has been filed, then at his last address as indicated on the records of the Employer shall be binding on such person for all purposes of the Plan, and neither the Plan Administrator nor the Employer or other payor shall be obliged to search for or ascertain the location of any such person. If the Plan Administrator for any reason is in doubt as to the address of any Participant or former Participant entitled to benefits hereunder or as to whether benefit payments are being received by the person entitled thereto, it shall, by registered mail addressed to the person concerned at his address last known to the Plan Administrator, notify such person that:

(a) All unmailed and future retirement income payments (with respect to Grandfathered Amounts) shall be henceforth withheld until he provides the Plan Administrator with evidence of his continued life and his proper mailing address; and

(b) His right to any retirement income (with respect to Grandfathered Amounts) whatsoever shall, at the option of the Plan Administrator, be canceled forever, if, at the expiration of two (2) years from the date of such mailing, he shall not have provided the Plan Administrator with evidence of his continued life and his proper mailing address.

8.5 Successors. The provisions of this Plan shall be binding upon each Employer, and their successors and assigns and upon each Participant and his heirs, spouses, estates, and legal representatives.

8.6 Facility of Payment. Whenever and as often as any person entitled to payments hereunder shall be under a legal disability, or in the sole judgment of the Plan Administrator shall otherwise be in any way incapacitated so as to be unable to manage his financial affairs, the Plan Administrator, in the exercise of its discretion, may direct that the distribution or payments to which such person otherwise would be entitled shall be made in any one or more of the following ways:

(a) Directly to such person;

(b) To his legal curator, guardian, or conservator, or other court-appointed or court-recognized representatives;
(c) To his Surviving Spouse, to another member of his family or to any other person, to be expended for his benefit; or
(d) By the Plan Administrator itself, receiving and expending, or directing the expenditure of the same for the benefit of such person.

Any payment made in good faith in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment under the provisions of this Plan.

8.7 Required Information to Plan Administrator. Each Participant or Surviving Spouse will furnish to the Plan Administrator such information as the Plan Administrator considers necessary or desirable for purposes of administering the Plan. The provisions of the Plan respecting any payments thereunder are conditional upon the Participant’s furnishing promptly such true, full and complete information as the Plan Administrator may request. Each Participant or Surviving Spouse will submit proof of his age and his spouse’s age to the Plan Administrator at such time as required by the Plan Administrator. The Plan Administrator will, if such proof of age is not submitted as required, use as conclusive evidence thereof such information as is deemed by it to be reliable, regardless of the lack of proof, or the misstatement of the age of persons entitled to benefits hereunder, by the Participant or otherwise. Any notice or information which, according to the terms of the Plan or the rules of the Plan Administrator, must be filed with the Plan Administrator, shall be deemed so filed if addressed and either delivered in person or mailed to and received by the Plan Administrator, in care of the Company at:

Newport News Shipbuilding Inc.
4101 Washington Avenue
Newport News, Virginia 23607-2770

8.8 Claims Procedure. The standardized “Huntington Ingalls Industries Nonqualified Retirement Plans Claims and Appeals Procedures” shall apply in handling claims and appeals under this Plan.

8.9 Controlling State Law. To the extent not superseded by the laws of the United States, the Plan will be construed and enforced according to the laws of the State of Delaware.

8.10 Severability. In case any provision of this Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining provisions of the Plan, and the Plan shall be construed and enforced as if such illegal and invalid provisions had never been set forth.

8.11 Adoption of Plan. Any subsidiary, affiliate company, or other entity that satisfies the requirements of Section 2.15 of this Plan, may adopt this Plan for all or a portion of its employees, provided that the Board of Directors of the Company approves such participation. The administrative powers and control of the Company as provided in the
Plan shall not be deemed diminished under the Plan by reason of the participation of other companies in the Plan.

* * *

IN WITNESS WHEREOF, this Plan is hereby adopted and executed by a duly authorized officer on this _____ day of ___________, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: ________________________________

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APPENDIX A — REGARDING PLAN ADMINISTRATION

A.1 In General. This Appendix A gives responsibility for plan administration (other than investment and trust matters) to an Administrative Committee, as described below. The provisions of this Appendix A override any contrary provision elsewhere in the documents governing the Plan, except to the extent prohibited by change-in-control provisions or collective bargaining agreements.

A.2 Plan Administrator. The general administration of the Plan is the responsibility of the Administrative Committee. The Committee is the plan administrator, and the Committee and each of its members are named fiduciaries. Committee members and all other Plan fiduciaries may serve in more than one fiduciary capacity with respect to the Plan.

A.3 The Administrative Committee. The Administrative Committee consists of at least three members appointed by the Board of Directors of the sponsoring corporation, the Board of Directors of the Company, or their delegate. The members of the Committee shall serve without compensation for such service, unless otherwise determined by the Board.

(a) Except as otherwise provided in this Appendix A, each member of the Committee shall continue in office until the expiration of 3 years from the date of his or her latest appointment or reappointment to the Committee. A member may be reappointed.

(b) If at the end of his or her latest term as a member of the Committee, a member is not reappointed, he or she will continue to serve on the Committee until the date his or her successor is appointed.

(c) A member may be removed by the Board at any time and for any reason.

A.4 Resignation of Committee Members. A member of the Administrative Committee may resign at any time by delivering a written resignation to the Secretary of the corporation and to the Secretary of the Committee. The member’s resignation will be effective as of the date of delivery or, if later, the date specified in the notice of resignation.

A.5 Conduct of Business. The Administrative Committee shall elect a Chairman from among its members and a Secretary who may or may not be a member. The Committee shall conduct its business according to the provisions of this Appendix A and shall hold meetings from time to time in any convenient location.

A.6 Quorum. A majority of all of the members of the Administrative Committee constitutes a quorum and has power to act for the entire Committee.

A.7 Voting. All actions taken by the Administrative Committee shall be by majority vote of the members attending a meeting, whether physically present or through remote communications. In addition, actions may be taken by written consent of a majority of the
Committee members without a meeting. The agreement or disagreement of any member may be by means of any form of written or oral communications.

A.8 Records and Reports of the Committee. The Administrative Committee shall keep such written records as it shall deem necessary or proper, which records shall be open to inspection by the Board.

A.9 Powers of the Committee. The Administrative Committee shall have all powers necessary or incident to its office as plan administrator. Such powers include, but are not limited to, full discretionary authority to:

(a) prescribe rules for the operation of the Plan;
(b) determine eligibility;
(c) comply with the requirements of reporting and disclosure under ERISA and any other applicable law, and to prepare and distribute other communications to participants (and, if applicable, beneficiaries) as a part of Plan operations;
(d) prescribe forms to facilitate the operation of the Plan;
(e) secure government approvals for the Plan (if applicable);
(f) construe and interpret the terms of the Plan, including the power to remedy possible ambiguities, inconsistencies or omissions, and to determine the facts underlying any claim for benefits;
(g) determine the amount of benefits, and authorize payments from the trust;
(h) maintain records;
(i) litigate, settle claims, and respond to and comply with court proceedings and orders on the Plan’s behalf;
(j) enter into contracts on the Plan’s behalf;
(k) employ counsel and others to render advice about any responsibility that the Committee has under the Plan;
(l) exercise all other powers given to the plan administrator under other provisions of the Plan.

A.10 Allocation or Delegation of Duties and Responsibilities. The Administrative Committee and the Board may:

(a) Employ agents to carry out nonfiduciary responsibilities;
(b) Employ agents to carry out fiduciary responsibilities (other than trustee responsibilities as defined in section 405(c)(3) of ERISA) under the rules of section 11 of this Appendix A;

(c) Consult with counsel, who may be counsel to the Company;

(d) Provide for the allocation of fiduciary responsibilities (other than trustee responsibilities as defined in section 405(c)(3) of ERISA) among their members under the rules of section 11 of this Appendix A; and

(e) In particular, designate one or more officers as having responsibility for designing and implementing administrative procedures for the Plan.

A.11 Procedure for the Allocation or Delegation of Fiduciary Duties. The rules of this section of the Appendix A are as follows:

(a) Any allocation or delegation of fiduciary responsibilities must be approved by majority vote of the members of the Administrative Committee, in a resolution approved by the majority.

(b) The vote cast by each member of the Administrative Committee for or against the adoption of such resolution must be recorded and made a part of the written record of the proceedings.

(c) Any delegation or allocation of fiduciary responsibilities may be changed or ended only under the rules of (a) and (b) of this section of the Appendix A.

A.12 Expenses of the Plan. All reasonable and proper expenses of administration of the Plan including counsel fees will be paid out of Plan assets, unless paid by the employers participating in the Plan (subject to subsection (b)).

(a) No expenses may be withdrawn from Plan assets without the consent of the Administrative Committee. The Committee may authorize the trustee to withdraw particular expenses or kinds of expenses on a standing basis.

(b) The participating employers may initially pay any expense that normally would be a charge on Plan assets and later obtain reimbursement from Plan assets.

(1) This even applies in cases where, at the time of the employers’ initial payment of the expense, it is not clear that the employers may lawfully seek reimbursement from Plan assets but the employers’ legal right to reimbursement is later clarified.

(2) It is specifically anticipated that there may be situations, such as litigation, where the employers might choose to bear costs initially, but later obtain 3
reimbursement many years after the costs were incurred. Such delayed reimbursements shall be permissible.

A.13 Indemnification. The Company agrees to indemnify and reimburse, to the fullest extent permitted by law, members and former members of the Board; members and former members of the Administrative Committee; employees and former employees of the Company or its subsidiaries who act (or acted) for the Committee, the Company or another employer participating in the Plan for any and all expenses, liabilities, or losses arising out of any act or omission relating to the rendition of services for or the management and administration of the Plan, except in instances of gross misconduct.

A.14 Extensions of Time Periods. For good cause shown, the Administrative Committee may extend any period set forth in the Plan for taking any action required of any participant or beneficiary to the extent permitted by law.

A.15 Claims Procedures. The standardized “Huntington Ingalls Industries Nonqualified Retirement Plans Claims and Appeals Procedures” shall apply in handling claims and appeals under this Plan.

A.16 Qualified Domestic Relations Orders. Notwithstanding anything in the Plan to the contrary, all or a portion of a Participant’s benefit may be paid to another person as specified in a domestic relations order that the Administrative Committee determines is qualified (a “Qualified Domestic Relations Order”). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

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

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

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

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

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

A.17 Amendments. The Administrative Committee may amend the Plan through written resolution to make the changes identified in subsection (a). Any amendments must be made in accordance with the rules of subsections (b), (c) and (d).
(a) The Committee may amend the Plan:

(1) to the extent necessary to keep the Plan in compliance with law;
(2) to make clarifying changes;
(3) to correct drafting errors;
(4) to otherwise conform the Plan documents to the company’s intent;
(5) to change the participation and eligibility provisions;
(6) to change plan definitions, formulas or employee transfer rules;
(7) with respect to administrative, procedural and technical matters including benefit calculation procedures, distribution elections and timing, other elections, waivers, notices, and other ministerial matters; and
(8) with respect to management of funds.

(b) Before adopting any Plan amendment, the Committee must obtain:

(1) a cost analysis of the proposed amendment;
(2) a legal opinion that the amendment does not violate ERISA or other applicable legal requirements;
(3) a tax opinion that the amendment will not result in the Plan’s disqualification;
(4) approval of the amendment from the Corporate Vice President and Chief Financial Officer of the Company; and
(5) approval of the amendment from the Corporate Vice President and Chief Human Resources and Administrative Officer of the Company.

(c) The Committee must refer to the Board for approval of any amendments that:

(1) will result in an increase in costs on an annual basis in excess of $5,000,000; or
(2) will result in a decrease in costs on an annual basis in excess of $5,000,000.

(d) The Committee’s amendment authority may not be delegated.

(e) Nothing in this section 17 of the Appendix A is intended to modify the amendment authority of any company, board of directors, officer or other committee.
APPENDIX B — 2005-2007 TRANSITION RULES

This Appendix B provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Participants with benefit commencement dates after January 1, 2005 and before January 1, 2008.

B.01 Election. Participants scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Participants electing optional forms of benefits under this provision will commence payments on the Participant’s selected benefit commencement date.

B.02 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Participants commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Participant.

(a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee’s date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.

(b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:

(i) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, a Participant must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;

(ii) The lump sum payment shall be made in 2005 as soon as feasible after the election; and

(iii) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan’s procedures for calculating lump sums as of December 31, 2004.
B.03 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007), distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Participant’s benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Participant’s benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).
APPENDIX C — POST 2007
DISTRIBUTION OF 409A AMOUNTS

The provisions of this Appendix C shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Article IV and Appendix B addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

C.01 Time of Distribution. Subject to the special rules provided in this Appendix C, distributions to a Participant of his vested retirement benefit shall commence as of the Payment Date.

C.02 Special Rule for Key Employees. If a Participant is a Key Employee and age 55 or older at his Separation from Service, distributions to the Participant shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Participant’s death). Amounts otherwise payable to the Participant during such period of delay shall be accumulated and paid on the first day of the seventh month following the Participant’s Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Huntington Ingalls Industries Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).

C.03 Forms of Distribution. Subject to the special rules provided in this Appendix C, a Participant’s vested retirement benefit shall be distributed in the form of a single life annuity. However, a Participant may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:

(a) 50% joint and survivor annuity
(b) 75% joint and survivor annuity
(c) 100% joint and survivor annuity.

If a Participant is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

C.04 Death. If a married Participant dies before the Payment Date, a death benefit will be payable to the Participant’s spouse commencing 90 days after the Participant’s death. The death benefit will be a single life annuity in an amount equal to the survivor portion of a Participant’s vested retirement benefit based on a 100% joint and survivor annuity.
determined on the Participant’s date of death. This benefit is also payable to a Participant’s domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

C.05 Actuarial Assumptions. Except as provided in Section C.06, all forms of payment under this Appendix C shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

- Interest Rate: 6%
- Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

C.06 Accelerated Lump Sum Payouts.

(a) Post-2007 Separations. Notwithstanding the provisions of this Appendix C, for Participants who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of a Participant’s retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to $25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section C.02, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Participant’s Separation from Service.

(b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix C, for Participants who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of a Participant’s retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Participant attains age 55, is less than or equal to $25,000, such benefit amount shall be distributed to the Participant (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Participant attains age 55, but no earlier than January 1, 2008.

(c) Conflicts of Interest. The present value of a Participant’s vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.

(d) Present Value Calculation. The conversion of a Participant’s retirement benefit into a lump sum payment and the present value calculations under this Section
C.06 shall be based on the actuarial assumptions in effect under the Huntington Ingalls Industries Pension Plan for purposes of calculating lump sum amounts, and will be based on the Participant’s immediate benefit if the Participant is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Participant will be eligible to receive at age 55.

C.07 Effect of Early Taxation. If the Participant’s benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Participant.

C.08 Permitted Delays. Notwithstanding the foregoing, any payment to a Participant under the Plan shall be delayed upon the Company’s reasonable anticipation of one or more of the following events:

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

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

provided, that any payment delayed pursuant to this Section C.08 shall be paid in accordance with Code section 409A.
APPENDIX D — NORTHPROP GRUMMAN SPIN-OFF

D.01 Background. The Company was a subsidiary of Northrop Grumman Corporation (“NGC”) prior to Distribution Date. On the Distribution Date, pursuant to an agreement between the Company and NGC, the liabilities for certain participants’ benefits under the Newport News Shipbuilding Inc. Retirement Benefit Restoration Plan (the “NGC Plan”), including Grandfathered Amounts, were transferred to this Plan. The Participants whose benefits were transferred to this Plan on the Distribution Date and other Participants who were employees of Affiliated Companies on the Distribution Date are referred to below as “NGC Participants.” The rules in this Appendix shall apply to NGC Participants and certain other Plan terms notwithstanding any Plan provisions to the contrary.

D.02 Plan Benefits. NGC Participants who qualified as eligible employees under the NGC Plan on the Distribution Date shall be eligible employees under this Plan on such date. All service and compensation that would be taken into account for purposes of determining the amount of a NGC Participant’s benefit or his vested right to a benefit under the NGC Plan as of the Distribution Date shall be taken into account for the same purposes under this Plan.

D.03 Distributions. The terms of this Plan shall govern the distribution of all benefits payable to a NGC Participant or any other person with a right to receive such benefits, including amounts accrued under the NGC Plan and then transferred to this Plan.

D.04 Termination and Key Employees. For avoidance of doubt, no NGC Participant shall be treated as incurring a separation from service, termination of employment, retirement, or similar event, or to have experienced a Change in Control, for purposes of determining the right to a distribution (for amounts subject to Code section 409A or otherwise), vesting, benefits, or any other purpose under the Plan as a result of NGC’s distribution of the Company’s shares to NGC’s shareholders. Also, the Company’s Key Employees shall be determined in accordance with the special rules for spin-offs under Treas. Reg. §1.409A-1(i)(6)(iii), or any successor thereto, for the period indicated in such regulation.

D.05 Participant Elections. All elections made by NGC Participants under the NGC Plan, including any payment elections or beneficiary designations, shall apply to the same effect under this Plan as if made under the terms of this Plan.

D.06 References to Plan. All references in this Plan to the “Plan” as in effect before the effective date of the Plan shall be read as references to the NGC Plan.

D.07 Right to Benefits. With respect to any service or compensation used to determine a benefit provided or due under the NGC Plan at any time, no benefit will be due under the Plan except with respect to such service and compensation related to a liability transferred from the NGC Plan to the Plan on the Distribution Date. Additionally, on and after the Distribution Date, NGC and the NGC Plan, and any successors thereto shall have no further obligation or liability to any NGC Participant with respect to any benefit, amount, or right due under the NGC Plan.
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The Huntington Ingalls Industries Electronic Systems Executive Pension Plan (the “Plan”) is hereby adopted effective as of the “Distribution Date” defined in the Separation and Distribution Agreement among Northrop Grumman Corporation, Huntington Ingalls Industries, Inc. and New P, Inc. (the “Distribution Date”) and conditioned upon such Distribution Date occurring.

The Plan is intended to comply with Code section 409A and official guidance issued thereunder (except for Grandfathered Amounts). Notwithstanding any other provision of this Plan, this Plan shall be interpreted, operated and administered in a manner consistent with this intention.

See Appendix F for special rules related to the spin-off of the Company from Northrop Grumman Corporation.
ARTICLE 1

Introduction

Section 1.01, Introduction. The Huntington Ingalls Industries Electronic Systems Executive Pension Plan is a supplemental pension plan that provides nonqualified deferred compensation for a select group of management or highly compensated employees.

Section 1.02, Effective Date. The Plan became effective as of the Distribution Date.

Section 1.03, Sponsor. The Plan sponsor is the Company.

Section 1.04, Predecessor Plan. The Plan was established as a successor to the Westinghouse Executive Pension Plan, maintained by Westinghouse Electric Corporation ("Westinghouse") for the benefit of certain executive employees of the Westinghouse Electronic Systems Group as of February 29, 1996 who became employees of the Northrop Grumman Electronic Sensors & Systems Division as of March 1, 1996 as a result of the Westinghouse Acquisition, and certain other executive employees who may become employed by the Northrop Grumman Electronic Sensors & Systems Division on or after March 1, 1996. The Northrop Grumman Electronic Sensors & Systems Division became the Northrop Grumman Electronic Sensors & Systems Sector effective August 24, 1998.

ARTICLE 2

Definitions

Capitalized terms which are defined in the ES Pension Plan will have the same meanings in this Plan unless otherwise expressly stated. In addition, the following terms when used and capitalized will have the following meanings:

Section 2.01, Affiliated Companies. The Company and any other entity related to the Company under the rules of section 414 of the Code.

Section 2.02, Annual Incentive Programs. See Article 6.

Section 2.03, Average Annual Compensation. See Article 6.

Section 2.04, Board. Board means the Board of Directors of the Company or its delegate.

Section 2.05, Code. The Internal Revenue Code of 1986, as amended, and as it may be amended.

Section 2.06, Committee. A committee of not less than three members appointed by the Board with responsibility for the general administration of the Plan. The Committee is the “plan administrator” under ERISA.
Section 2.07. **Company.** Huntington Ingalls Industries, Inc.

Section 2.08. **Defined Contribution Plan.** A defined contribution plan within the meaning of ERISA § 3(34), but not including:

(a) the Northrop Grumman Electronic Systems Savings Program or any similar program of a Participating Company or a Designated Entity or

(b) any amount received pursuant to a cash or deferred arrangement (as that term is defined in the Code) maintained by a Participating Company or a Designated Entity.

Section 2.09. **Designated Entity.** Designated Entity means an Affiliated Company or other entity that has been and is still designated by the Committee as participating in the Plan.

Section 2.10. **ERISA.** The Employee Retirement Income Security Act of 1974, as amended, and as it may be amended.

Section 2.11. **ES Pension Plan.** The Northrop Grumman Electronic Systems Pension Plan, formerly known as the ESSD Pension Plan.

Section 2.12. **Executive.** Executive means an individual who satisfies (a) and (b) and is not excluded by (c) or (d):

(a) An Employee who is employed by ES (or by a Participating Company, Designated Entity, or other Affiliated Company) in a position that is determined by the Company’s Chief Executive Officer or Vice President and Chief Human Resources and Administrative Officer to be eligible as an Executive position under this Plan based on the duties and responsibilities of the position.

(b) The Employee has been notified by the Committee in writing that he or she is eligible for benefits under the Plan.

(c) No Employee may receive benefits under this Plan if he or she is currently accruing supplemental benefits under any other nonqualified deferred compensation plan, contract, or arrangement maintained by the Affiliated Companies or to which the Affiliated Companies contribute with the exception of the Officers Supplemental Executive Retirement Program under the Huntington Ingalls Industries Supplemental Plan 2.

(d) Notwithstanding any provision of the Plan to the contrary, effective as of July 1, 2003, no Employee will first become eligible to participate in the Plan or otherwise receive credit for service or compensation for purposes of calculating a benefit under the Plan unless the Employee was classified as an Executive eligible to participate in the Plan before that date. Executives that terminate employment and are later rehired into positions that are determined to be eligible as Executive positions under the Plan will be eligible to resume participation in the Plan and will be subject to Appendix B.


Section 2.15. Executive Pension Supplement. The pension calculated pursuant to Articles 4 and 5 of this Plan. There will be no Executive Pension Supplement payable if the Executive’s Qualified Plan Benefit equals or exceeds his or her Executive Pension Base.

Section 2.16. Grandfathered Amounts. Plan benefits that were earned and vested as of December 31, 2004 within the meaning of Code section 409A and official guidance thereunder.

Section 2.17. Key Employee. An employee treated as a “specified employee” under Code section 409A(a)(2)(B)(i) of the Company or the Affiliated Companies (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 Executives 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 twelve (12) month period commencing on April 1 of the following year.

Section 2.18. Maximum Contribution. An Employee will be deemed to have made the Maximum Contribution if he or she has made the contributions under (a) and (b), as interpreted under (c):

(a) During such time as the Employee was eligible to participate in the ES Pension Plan and the Westinghouse Pension Plan, he or she contributed the maximum amount the Employee was permitted to contribute under those plans, and

(b) During such time as the Employee was employed by a Designated Entity (which includes for this purpose a “Designated Entity” under the Westinghouse Plan during periods before the Westinghouse Acquisition),

   (1) The Employee contributed the maximum amount he or she was permitted to contribute, if any, to that Designated Entity’s defined benefit pension or Defined Contribution Plan, if any, and

   (2) The Employee paid to the Company (or to Westinghouse, before the Westinghouse Acquisition) an amount of each of his or her annual incentive compensation awards based on the maximum ES Pension Plan contribution formula (or Westinghouse Pension Plan contribution formula, as appropriate) applied to 50% of his or her awards. This payment is pre-tax and is made by a deferral election entered into prior to the year in which the annual incentive compensation award is determined and paid.

(c) This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C). Accordingly, this Section is to be interpreted as requiring an Executive to have made the Maximum Contribution not only under this Plan but also under the Westinghouse Plan.
Section 2.19. Participating Company. Any of the “Participating Companies” under the ES Pension Plan.

Section 2.20. Payment Date. The 1st of the month coincident with or following the later of (a) the date the Executive attains age 55, or (b) the date the Executive Separates from Service.

Section 2.21. Pension Plan and Pension Plans. Any of the following:

(a) The Northrop Grumman Retirement Plan
(b) The Northrop Grumman Retirement Plan – Rolling Meadows Site
(c) The Northrop Grumman Retirement Value Plan (effective as of January 1, 2000)
(d) The Northrop Grumman Electronics Systems – Space Division Salaried Employees’ Pension Plan (effective as of the Aerojet Closing Date)
(e) The Northrop Grumman Electronics Systems – Space Division Union Employees’ Pension Plan (effective as of the Aerojet Closing Date)

“Aerojet Closing Date” means the Closing Date specified in the April 19, 2001 Asset Purchase Agreement by and Between Aerojet-General Corporation and Northrop Grumman Systems Corporation.


Section 2.23. Qualified Plan Benefit.

(a) The Qualified Plan Benefit is equal to the sum of:

1. the annual amount of pension the Executive has accrued under the ES Pension Plan and any applicable defined benefit pension plan of a Designated Entity based on Benefit Service accumulated up to the earlier of the Executive’s actual retirement date or death;

2. the amount the Executive is entitled to receive on a life annuity basis for retirement under any applicable Defined Contribution Plan of a Designated Entity;

3. in any case where service included in the Executive’s Vesting Service also entitles that Executive to benefits under one or more retirement plans (whether a defined benefit or Defined Contribution Plan or both) of another company, the amount the Executive is entitled to receive on a life annuity basis for retirement from those plans; and

4. the amount of any “Qualified Plan Benefits” taken into account under the Westinghouse Plan (or which would have been taken into account, but for
the Westinghouse Acquisition) with respect to plans that were not acquired by the Affiliated Companies as part of the Westinghouse Acquisition; provided, the method of benefit measurement, in the case of (2), (3) and (4) above, will be on the basis of procedures determined by the Committee on a plan-by-plan basis.

(b) The Qualified Plan Benefit does not include any early pension retirement supplement.

(c) The term Qualified Plan Benefit will also include amounts accrued under an excess benefit plan or other similar arrangement in which the Executive is a participant.

Section 2.24. Retirement Eligible. An Executive is Retirement Eligible if he or she is accruing Vesting Service and:

(a) has attained age 65 and completed five or more years of Vesting Service;
(b) has attained age 60 and completed 10 or more years of Vesting Service;
(c) has attained age 58 and completed 30 or more years of Vesting Service; or
(d) has satisfied the requirements for an immediate pension under the Special Retirement Benefit provisions of the ES Pension Plan.

Section 2.25. Separation from Service or Separates from Service. A “separation from service” within the meaning of Code section 409A.


Section 2.27. Westinghouse Acquisition. The acquisition by Northrop Grumman Corporation of the Electronic Systems Group of Westinghouse effective March 1, 1996.

Section 2.28. Westinghouse Plan. The Westinghouse Executive Pension Plan, as it existed from time to time.
ARTICLE 3

Qualification for Benefits; Mandatory Retirement

Section 3.01. Qualification for Benefits. Subject to Article 8 and other applicable provisions of the Plan, if any, each Executive will be entitled to the benefits of this Plan on separation from service from a Participating Company, a Designated Entity, or any other Affiliated Company, provided that such Executive meets the following four conditions:

(a) He or she has been employed in a position that meets the definition of Executive for five or more continuous years immediately preceding the earlier of the Executive’s actual retirement date or the Executive’s Normal Retirement Date. For purposes of this five-year requirement (but not for purposes of determining Executive Benefit Service under Section 6.05), the General Manager of ES and the Vice President of Human Resources for ES may determine that one or more years of an Employee’s service with an Affiliated Company prior to the Employee’s transfer to ES shall be counted as having been in an Executive position.

(b) He or she has made the Maximum Contribution during each year of Vesting Service from the date he or she first became an Executive until the earliest of his or her date of death, actual retirement date or Normal Retirement Date;

(c) He or she is a participant in the ES Pension Plan or in the defined benefit plan or Defined Contribution Plan of a Designated Entity, if any;

(d) He or she is Retirement Eligible on the date of voluntary or involuntary separation from service from a Participating Company or a Designated Entity or, in the case of a Surviving Spouse benefit, satisfies the requirements for benefits under Article 5 of the Plan.

An Executive who meets the following requirements will be treated as “Retirement Eligible” even though not meeting the Plan’s definition of this term:

(1) The Executive is involuntarily terminated without cause, or terminated due to a divestiture of his business unit,

(2) The Executive has attained age 53 with 10 or more years of Early Retirement Eligibility Service, or 75 points (age plus Years of Credited Service) at date of termination, and

(3) The Executive is actively accruing benefits at date of termination and has satisfied both the rule of Section 3.01(a) and the rule of Section 3.01(b) on the date of termination.

Benefits that become payable based on the Executive’s termination meeting the three requirements above shall be subject to Code Section 409A and payable in accordance with the terms of Appendix E. Reduction factors will apply in cases where benefit payments commence prior to age 58 (if the Executive has 30 or more years of Vesting Service) or age 60 (if the Executive has 10 - 29 years of Vesting Service). The reduction will be an actuarial one.
from age 58 or 60 (whichever age applies) to the actual payment commencement date. The reduction factor will be based on the actuarial assumptions used for determining lump sum actuarial equivalents in the Northrop Grumman Cash Balance Plan Program.

Section 3.02, Mandatory Retirement. Pursuant to this Plan, the Company will be entitled, at its option, to retire any Executive who has attained age 65 and who, for the two-year period immediately before his or her retirement, has participated in this Plan, if such Executive is entitled to an immediate nonforfeitable annual retirement benefit from a pension, profit-sharing, savings or deferred compensation plan, or any combination of such plans, of a Participating Company or any Affiliated Company, which equals, in the aggregate, at least $44,000. The calculation of the $44,000 (or greater) amount will be performed in a manner consistent with 29 U.S.C. § 631(c)(2).

Section 3.03, Certain Transfers. Except as otherwise provided in (e) below, if an Executive transfers to a position with an Affiliated Company that is not covered by a Participating Company or Designated Entity:

(a) He or she will immediately cease to accrue Executive Benefit Service.

(b) He or she will continue to earn Vesting Service (for purposes of the Plan other than Executive Benefit Service) for periods of employment with the Affiliated Company.

(c) His or her Average Annual Compensation will include earnings as an employee from the Affiliated Company for periods after the transfer until his or her termination of employment with all Affiliated Companies.

(d) He or she may receive benefits under the Plan if he or she subsequently retires from the Company and satisfies the Plan’s eligibility requirements.

(e) If an Executive transfers to a position with an Affiliated Company that has been determined by the Company’s Chief Executive Officer or Vice President and Chief Human Resources and Administrative Officer to be an eligible position under the Plan, (a)-(d) above will not apply and the Executive will continue to be classified as an active participant for all purposes under the Plan until the Executive’s separation from service from all Affiliated Companies.
(a) If the Executive

(1) has attained age 60 and completed 10 or more years of Vesting Service,

(2) has attained age 65, or

(3) has satisfied the eligibility requirements for an immediate pension under the “Special Retirement Benefit” provisions of the ES Pension Plan,

the Executive Pension Supplement is determined by subtracting the Executive’s Qualified Plan Benefit that would be payable if he or she elected a Life Annuity Option (after any reduction for early retirement, if applicable) from his or her Executive Pension Base.

(b) If the Executive has not met the requirements of paragraph (a) above but has attained age 58 and completed 30 or more years of Vesting Service, the Executive Pension Supplement is determined by subtracting the Executive’s Qualified Plan Benefit that would be payable if he or she elected a Life Annuity Option (before any reduction for retirement prior to age 60) from his or her Executive Pension Base.

(c) If the Executive has not met the requirements of paragraph (a) or (b) above but is deemed to be Retirement Eligible under Section 3.01(d) based on the circumstances of the Executive’s termination, the Executive Pension Supplement is determined by subtracting the Executive’s Qualified Plan Benefit projected to age 60 as a Life Annuity from his or her Executive Pension Base.

ARTICLE 5

Death in Active Service

Section 5.01. Eligibility For an Immediate Benefit. If an Executive dies in active service and, on his or her date of death, satisfies the requirements of the “Special Surviving Spouse Benefit” under the ES Pension Plan and satisfied the requirements of Section 3.01(b) and (c) of this Plan at the time of death, a Surviving Spouse benefit will also be payable under this Plan if his or her Executive Pension Base exceeds his or her Qualified Plan Benefit. The requirement of Section 3.01(a) is waived.

Section 5.02. Calculation of Immediate Benefit. The amount of the immediate Surviving Spouse benefit under Section 5.01 will be the Executive Pension Supplement reduced in the same manner as though the benefit were a “Special Surviving Spouse Benefit” under the ES Pension Plan. For purposes of this Section, the Executive Pension Supplement will be calculated as follows:

(a) If the Executive had attained age 60 or if the Executive had completed 30 years of Vesting Service, the Executive Pension Supplement would be calculated as described in Section 4.02(a);
(b) Otherwise, the Executive Pension Supplement would be 80% of the difference between the Executive Pension Base and the unreduced Qualified Plan Benefit.

Section 5.03. Eligibility For a Deferred Benefit. If an Executive dies in active service who does not satisfy the requirements of Section 5.01 but who satisfies the requirements of the “Surviving Spouse Benefit” under the ES Pension Plan and satisfied the requirements of Section 3.01(b) and (c) of this Plan at the time of death, a Surviving Spouse benefit will also be payable under this Plan if his or her Executive Pension Base exceeds his or her Qualified Plan Benefit. The requirement of Section 3.01(a) is waived.

Section 5.04. Calculation of Deferred Benefit. The amount of the deferred Surviving Spouse benefit under Section 5.03 will be the Executive Pension Supplement reduced in the same manner as though the benefit were payable under the ES Pension Plan. For purposes of this paragraph, the Executive Pension Supplement will be calculated by subtracting the Executive’s Qualified Plan Benefit (before any reductions) from his or her Executive Pension Base.

ARTICLE 6

Executive Pension Base

Section 6.01. In General. This Article sets forth the rules for determining a Participant’s Executive Pension Base.

Section 6.02. Executive Pension Base. The Executive Pension Base = (a) x (b) x (c) as follows:

(a) 1.47%;
(b) Average Annual Compensation;
(c) the number of years of Executive Benefit Service accrued to the earliest of:
   (1) the Executive’s actual retirement date, or
   (2) the date of the Executive’s death.

Section 6.03. Average Annual Compensation. Average Annual Compensation = (a) + (b) as follows:

(a) 12 times the average of the five highest of the Executive’s December 1 monthly base salaries during the 10-year period immediately preceding the earliest of:
   (1) the Executive’s date of death, or
   (2) the Executive’s actual retirement date.
(b) the average of the Executive’s five highest annual incentive compensation awards paid under the Annual Incentive Programs or equivalent annual program or programs during the 10-year period ending with the earliest of:

1. the year of the Executive’s death, or
2. the year of the Executive’s actual retirement date.

(c) No earnings before March 1, 1996 are taken into account under this Article.

(d) Notwithstanding the foregoing, for Executives terminating employment with the Affiliated Companies after 2004, the averages in subsection (a) and (b) above shall be based on salaries and annual incentive compensation awards paid in 1995 or later and shall not be limited to the 10-year periods described in subsections (a) and (b). All amounts accrued as a result of this change shall be subject to Code section 409A.

(e) Average Annual Compensation normally includes only pay earned while an Executive. But see Section 3.03.

(f) The following shall not be considered as compensation for purposes of determining the amount of any benefit under the Plan:

1. any payment authorized by the Company’s Compensation Committee that is (a) calculated pursuant to the method for determining a bonus amount under the Annual Incentive Programs (AIP) for a given year, and (b) paid in lieu of such bonus in the year prior to the year the bonus would otherwise be paid under the AIP, and
2. any award payment under any Huntington Ingalls Industries long-term incentive cash plan.

Section 6.04, Annual Incentive Programs. The Annual Incentive Programs are the Timely Awards Program, Management Achievement Plan, the Incentive Compensation Plan, the Incentive Management Achievement Plan and the Performance Achievement Plan of the Company.

Section 6.05, Executive Benefit Service. An Executive’s Executive Benefit Service is determined under (a) or (b) as appropriate, and subject to (c) and (d):

(a) Executive Benefit Service is an Executive’s total years of Vesting Service under the ES Pension Plan if:

1. the Executive was making the Maximum Contribution during each of those years; or
2. the use of the Executive Buy Back process has been authorized by the Committee and the Executive:
(A) was making the Maximum Contribution during each of those years after the date he or she first became an Executive and
(B) has complied with the provisions of the Executive Buy Back process (as set forth in Appendix A) as to those years prior to his or her first
becoming an Executive.

(b) Otherwise, Executive Benefit Service is the Executive’s period of Vesting Service during which he or she made the Maximum Contribution.

(c) No service before March 1, 1996 is taken into account under this Article.

(d) Notwithstanding the foregoing, for an Executive terminating employment with the Affiliated Companies after 2004, Executive Benefit Service accruals
after 2004 equal (1) minus (2) below:

(1) Elapsed time while the Executive was making the Maximum Contributions, including time purchased under the Executive Buy Back process (as
set forth in Appendix A);

(2) Executive Benefit Service accrued as of December 31, 2004.

All amounts accrued as a result of this change shall be subject to Code section 409A.

ARTICLE 7
Payment of Benefits

Section 7.01. Limitation on Benefits. No benefits will be payable under this Plan to any Executive whose employment terminates for any reason other than
death prior to becoming Retirement Eligible.

Section 7.02. Normal Form and Commencement of Benefits. This Section only applies to Grandfathered Amounts. The Executive Pension Supplement will
be paid for life in monthly installments, each equal to \( \frac{1}{12} \)th of the annual amount determined in Article 4 or 5, whichever is applicable.

(a) The Committee will determine the form and commencement of benefit payments in its sole discretion.

(b) The Committee will choose among the various forms of payment, other than the lump sum, then available under the ES Pension Plan, subject to the
same reductions or other provisions that apply to the elected form of payment under the ES Pension Plan.

(c) No payments may commence under this Plan until payments to the Executive or Surviving Spouse have commenced under the ES Pension Plan or other
tax-qualified defined
benefit plan or Defined Contribution Plan maintained by a Participating Company or Designated Entity.

See Appendix D and Appendix E for the rules that apply to other benefits earned under the Plan.

Section 7.03, Guaranteed Benefit. This Section only applies to Grandfathered Amounts. Regardless of the form of payment elected by the Committee, after the Executive retires and begins receiving an Executive Pension Supplement, a minimum of 60 times the monthly payment he or she would have received on a life annuity basis is guaranteed.

See Appendix D and Appendix E for the rules that apply to other benefits earned under the Plan.

Section 7.04, Guaranteed Surviving Spouse Benefit. This Section only applies to Grandfathered Amounts. Once a Surviving Spouse Benefit determined under Sections 5.01 and 5.02 has commenced, a minimum of 60 times the monthly benefit payable to the Surviving Spouse is guaranteed. See Appendix D and Appendix E for distribution rules that apply to death benefits that are not Grandfathered Amounts.

Section 7.05, Lump Sum Payments. This Section only applies to Grandfathered Amounts. An Executive who elects lump sum payments of all his or her nonqualified benefits under the Northrop Grumman Corporation Change-In-Control Severance Plan (effective August 1, 1996, as amended) or the Northrop Grumman Corporation March 2000 Change-In-Control Severance Plan (collectively, the “CIC Plans”) is entitled to have his or her Executive Pension Supplement paid as a lump sum calculated under the terms of the applicable CIC Plan. Otherwise, Executive Pension Supplement payments are governed by the general provisions of this Article, which do not provide for lump sum payments.

The Company may, in its sole discretion, amend or eliminate any provision of the Plan with respect to lump sum distributions at any time. This applies whether or not a Participant has already made a lump sum election.

See Appendix D and Appendix E for the rules that apply to other benefits earned under the Plan.

Section 7.06, Mandatory Cashout. Notwithstanding any other provisions in the Plan, Executives with Grandfathered Amounts who have not commenced payment of such benefits prior to January 1, 2008 will be subject to the following rules:

(a) Post-2007 Terminations. Executives who have a complete termination of employment with the Affiliated Companies after 2007 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of such termination (without interest), if such present value is below the Code section 402(g) limit in effect at the termination.

(b) Pre-2008 Terminations. Executives who had a complete termination of employment with the Affiliated Companies before 2008 will receive a lump sum distribution of the present value of their Grandfathered Amounts within two months of the time they commence payment of their underlying qualified pension plan benefits (without interest), if such present value is below the Code section 402(g) limit in effect at the time such payments commence.
For purposes of calculating present values under this Section, the actual assumptions and calculation procedures for lump sum distributions under the Huntington Ingalls Industries Pension Plan shall be used.

Section 7.07. Optional Payment Forms. Executives with Grandfathered Amounts shall be permitted to elect (a) or (b) below:

(a) To receive their Grandfathered Amounts in any form of distribution available under the Plan at October 3, 2004, provided that form remains available under the underlying qualified pension plan at the time payment of the Grandfathered Amounts commences. The conversion factors for these distribution forms will be based on the factors or basis in effect under this Plan on October 3, 2004.

(b) To receive their Grandfathered Amounts in any life annuity form not included in (a) above but included in the underlying qualified pension plan distribution options at the time payment of the Grandfathered Amounts commences. The conversion factors will be based on the following actuarial assumptions:

- Interest Rate: 6%
- Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

Section 7.08. Rehires. In the event that an Executive retires or otherwise ceases to be an Employee of a Participating Company or a Designated Entity and is later rehired by one of those entities, the provisions of Appendix B will apply.

Section 7.09. Special Tax Distribution. On the date an Executive’s retirement benefit is reasonably ascertainable within the meaning of IRS regulations under Code section 3121(v)(2), an amount equal to the Executive’s portion of the FICA tax withholding will be distributed in a single lump sum payment. This payment will be based on all benefits under the Plan, including Grandfathered Amounts. This payment will reduce the Executive’s future benefit payments under the Plan on an actuarial basis.

ARTICLE 8
Conditions to Receipt of Executive Pension Supplement

Section 8.01. Non-Competition Condition. Payments of benefits under this Plan to Executives are subject to the condition that the recipient will not compete with the Company.

(a) Competition for this purpose means engaging directly or indirectly in any business which is at the time competitive with any business, part of a business, or activity then conducted by the Company, any of its subsidiaries or any other corporation, partnership, joint venture or other entity of which the Company directly or indirectly holds a 10% or greater
interest (together, the “Affiliated Group”) in the area in which such business, part of a business, or activity is then being conducted by the Affiliated Group.

(b) The condition of this Section may be waived with respect to a recipient but only in writing and only by the Compensation Committee of the Board.

Section 8.02. Breach of Condition. Breach of the condition contained in Section 8.01 will be deemed to occur immediately upon an Executive’s engaging in competitive activity.

(a) Payments suspended for breach of the condition will not be resumed whether or not the Executive terminates the competitive activity.

(b) A recipient will be deemed to be engaged in such a business indirectly if he or she is an employee, officer, director, trustee, agent or partner of, or a consultant or advisor to or for, a person, firm, corporation, association, trust or other entity which is engaged in such a business or if he or she owns, directly or indirectly, in excess of 5% of any such firm, corporation, association, trust or other entity.

Section 8.03. Waiver After 65. The ongoing condition of this Article will not apply to an Executive age 65 or older.

ARTICLE 9

Administration

Section 9.01. Committee. This Plan will be administered by the Committee. The Committee will have the right to make reasonable rules from time to time regarding the Plan. All such rules will be consistent with the policy provided by this Plan document. The Committee will have full discretion to interpret the Plan, and to resolve ambiguities and inconsistencies. The Committee’s interpretations will in all cases be final and not be subject to appeal.

Section 9.02. Claims Procedures. The Company’s standardized “Huntington Ingalls Industries Nonqualified Retirement Plans Claims and Appeals Procedures” shall apply in handling claims and appeals under this Plan.

Section 9.03. Trust. The Board may authorize the establishment of one or more trusts and the appointment of a trustee or trustees (“Trustee”) to hold any and all assets of the Plan in trust. The Board may delegate this power to the Committee.
ARTICLE 10
Modification or Termination

Section 10.01, Amendment and Plan Termination. The Company may, in its sole discretion, terminate, suspend or amend this Plan at any time or from time to time, in whole or in part for any reason. This includes the right to amend or eliminate any of the provisions of the Plan with respect to lump sum distributions, including any lump sum calculation factors, whether or not an Executive has already made a lump sum election. Notwithstanding the foregoing, no amendment or termination of the Plan shall reduce the amount of an Executive’s accrued benefit under the Plan as of the date of such amendment or termination.

No amendment of the Plan shall apply to the Grandfathered Amounts, unless the amendment specifically provides that it applies to such amounts. The purpose of this restriction is to prevent a Plan amendment from resulting in an inadvertent “material modification” to the Grandfathered Amounts.

ARTICLE 11
Miscellaneous

Section 11.01, Benefits Not Assignable.

(a) No Executive, former Executive or Surviving Spouse shall have the right to anticipate, alienate, sell, transfer, assign, pledge, encumber, or otherwise subject to lien any of the benefits provided under this Plan. Such rights may not be subject to the debts, contracts, liabilities, engagements or torts of the Executive, former Executive or Surviving Spouse of an Executive.

(b) Notwithstanding the foregoing, all or a portion of an Executive’s Plan benefits may be paid to another person as specified in a domestic relations order that the Committee determines is qualified (a “Qualified Domestic Relations Order”). For this purpose, a Qualified Domestic Relations Order means a judgment, decree, or order (including the approval of a settlement agreement) which is:

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

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

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

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

Section 11.02. Facility of Payment. If the Committee deems any person entitled to receive any payment under the Plan incapable of receiving it by reason of age, illness, infirmity, mental incompetency or incapacity of any kind, the Committee may, in its discretion, direct that payment be made in any one or more of the following manners:

(a) Applying the amount directly for the comfort, support and maintenance of the payee;
(b) Reimbursing any person for any such support supplied by any other person to the payee;
(c) Paying the amount to a legal representative or guardian or any other person selected by the Committee on behalf of the payee; or
(d) Depositing the amount in a bank account to the credit of the payee.

Section 11.03. Committee Rules. Payment of benefits will be made in accordance with the rules and procedures of the Committee.

Section 11.04. Limitation on Rights. The Company, in adopting this Plan, will not be held to create or vest in any Executive or any other person any interest, pension or benefits other than the benefits specifically provided herein, or to confer upon any Executive the right to remain in the service of the Company.

Section 11.05. Benefits Unsecured. Any assets purchased by the Company to provide benefits under this Plan will at all times remain subject to the claims of general creditors of the Company and any Executive, former Executive or Surviving Spouse of an Executive participating in the Plan has only an unsecured promise to pay benefits from the Company.

Section 11.06. Governing Law. To the extent not preempted by federal law, the law of the State of Delaware will govern the construction and administration of the Plan.

Section 11.07. Severability. If any provision of this Plan or its application to any circumstance or person is held to be invalid by a court of competent jurisdiction, the remainder of the Plan and the application of such provision to other circumstances or persons will not be affected thereby.

Section 11.08. Expanded Benefits. The Board or the Compensation Committee of the Board may, from time to time and without notice, by resolution of the Board or of the Compensation Committee of the Board, authorize the payment of benefits or expand the benefits otherwise payable or to be payable to any one or more individuals. Notwithstanding the foregoing, this Section 11.08 shall not apply to any benefits under the Plan that are not Grandfathered Amounts.
Section 11.09. Plan Costs. Benefits payable under the Plan and any expenses in connection therewith will be paid by the Company to the extent they are not available to be paid from any trust fund established by the Company to help defray the costs of providing Plan benefits.

Section 11.10. Termination of Participation. Participation in the Plan will terminate:

(a) in the case of a nonvested Executive, upon separation from service with a Participating Company or Designated Entity;

(b) in the case of a vested Executive, when payment of all amounts due with respect to the Executive are paid, or purported to be paid, by the Plan.

ARTICLE 12
Change in Control

Section 12.01. Definition. The term “Change in Control” means the occurrence of one or more of the following events:

(a) There will be consummated:

   (1) Any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company’s common stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company’s common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger; or

   (2) Any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company; or

(b) The stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; or

(c) (1) Any person (as such term is defined in section 13(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), corporation or other entity will purchase any common stock of the Company (or securities convertible into Company common stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, unless, prior to the making of such purchase of Company common stock (or securities convertible into Company common stock), the Board will determine that the making of such purchase will not constitute a Change in Control; or

   (2) Any person (as such term is defined in section 13(d) of the Exchange Act), corporation or other entity (other than the Company or any benefit plan sponsored by the Affiliated Companies) will become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing...

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twenty percent or more of the combined voting power of the Company’s then outstanding securities ordinarily (and apart from any rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) in the case of rights to acquire any such securities), unless, prior to such person so becoming such beneficial owner, the Board will determine that such person so becoming such beneficial owner will not constitute a Change in Control; or

(d) At any time during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board will cease for any reason to constitute at least a majority thereof, unless the election or the nomination for election of each new director during such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such two-year period.

Section 12.02. Vesting and Funding Rules. Notwithstanding any other provision of the Plan, upon a Change in Control, as defined above, all Executives will be deemed fully vested under this Plan, but only such vesting as to the otherwise applicable five-year service requirement. In addition, upon a Change in Control, but only under circumstances where the successor, surviving or parent company of Huntington Ingalls Industries, Inc. or the successor plan sponsor or any successor thereto, if any, does not agree to assume the obligation to provide benefits under this Plan as they become due and payable, then an amount sufficient to fund all unpaid benefits and any Surviving Spouse benefits payable under this Plan will be paid immediately by the Company to a Trustee pursuant to a Trust Agreement for the payment of such benefits at the earliest date available in accordance with the provisions of the Plan and on such terms as the committee composed of the Company’s Chief Executive Officer, Chief Financial Officer and General Counsel, will deem appropriate (including a direction to the Trustee to pay immediately all benefits that are Grandfathered Amounts on a present value basis and/or such other terms as they may deem appropriate). Notwithstanding this funding, the Company will be obligated to pay benefits to Executives and to Surviving Spouses of Executives to the extent such funding proves to be insufficient. To the extent such funding proves to be more than sufficient, any excess will revert to the Company.

Section 12.03. Special Retirement Provisions. Upon a Change in Control, for any Executive in the Plan who is involuntarily separated and who is not then eligible for a Normal or Special Retirement Pension under the ES Pension Plan, such separation will be deemed to be a separation due to a “Permanent Job Separation”, and the Special Retirement Pension provisions under the ES Pension Plan will be used for purposes of determining eligibility and payment of benefits to such Executive under the Plan, provided that distribution of amounts that are not Grandfathered Amounts will still be controlled by Appendix D and Appendix E.

Section 12.04. Calculation of Present Value. The present value of benefits payable by the Trustee will be calculated for specific groups of Executives at the time of the Change in Control as follows:

(a) The present value of the benefits payable from this Plan to Executives who have retired at the time of the Change in Control (as well as benefits payable from this Plan to any Surviving Spouse of an Executive) will be calculated by using the PBGC immediate discount

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rate established and in effect for the beginning of the calendar year in which the Change in Control occurs.

(b) The present value of the benefits payable from this Plan to Executives who are eligible to retire under the terms of this Plan at the time of the Change in Control will be calculated by using the PBGC immediate discount rates established and in effect at the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is immediately payable at the time of the Change in Control.

(c) The present value of the benefits payable from this Plan to Executives who have completed at least 30 years of service with a Participating Company or a Designated Entity but have not yet attained age 58 at the time of the Change in Control will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 58.

(d) The present value of benefits payable from this Plan to Executives who have completed at least 10 years of service with a Participating Company or a Designated Entity but less than 30 years of service at the time of the Change in Control, but have not yet attained age 60 at the time of the Change in Control, will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 60.

(e) The present value of benefits payable from this Plan to Executives who have completed less than 10 years of service with a Participating Company or a Designated Entity at the time of the Change in Control will be calculated by using the PBGC deferred discount rates established and in effect for the beginning of the calendar year in which the Change in Control occurs, assuming a pension which is payable at age 65.

Section 12.05. Calculation of Offset. In calculating the benefit payable to each Executive, any offset for the ES Pension Plan or other plan in which the Executive participates, will be based upon the last official pension file data available, adjusted to the date of any Change in Control by assuming that the most recent salary reflected in the pension file remains constant.

Section 12.06. Limitation on Amendment, Suspension and Termination. Notwithstanding any provision of this Plan, this Plan may not be:

(a) Amended such that future benefits would be reduced;

(b) Suspended; or

(c) Terminated;

as to the further accrual of benefits, for a period of 24 months following a Change in Control; and as to the payment of benefits, at any time prior to the last payment, determined in accordance with the provisions of this Plan, to each Executive receiving benefits under the Plan, or eligible spouse.

* * *

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IN WITNESS WHEREOF, this Plan is hereby executed by a duly authorized officer on this _____ day of ________, 2011.

HUNTINGTON INGALLS INDUSTRIES, INC.

By:  

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APPENDIX A

Executive Buyback

Section A.01. Introduction. The Executive Buy Back process permits newly eligible Executives to “buy back” past years of Executive Benefit Service under the Plan for periods of time during which they did not make the Maximum Contribution.

Section A.02. Buy Back Offer. If an Employee did not make the Maximum Contribution during each of the years of his or her Vesting Service prior to the time he or she first became an Executive, the Employee will be permitted to pay make-up payments of Maximum Contributions in order to “buy back” his or her non-contributory years of service.

(a) The make-up payments required are the Maximum Contributions that would have been payable during the 10 years prior to the date he or she first became an Executive (or such lesser period from the date the Employee was employed by a Participating Company or a Designated Entity) plus compounded interest on those amounts.

(b) This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C). Accordingly, this Section is to be interpreted as requiring an Executive to make up Maximum Contributions not only for his or her periods of participation under this Plan but also Maximum Contributions that would have been due under the Westinghouse Plan. The terms of (a) will be interpreted to include the corresponding terms under the Westinghouse Plan and the 10-year period will include periods before the Westinghouse Acquisition.

Section A.03. One-Time Opportunity. Upon qualifying as an Executive, an Executive will be offered an Executive Buy Back opportunity at the time he or she first becomes an Executive (or when this Appendix first becomes effective, if later). The actual terms of the Executive Buy Back will be determined from time to time by the Committee. This election will be offered one time to the Executive and his or her decision whether or not to “buy back” will be irrevocable.

Section A.04. Payment. Executive Buy Back payments are pre-tax and are made from compensation by deferral elections entered into prior to the year in which the compensation is determined and paid. Executive Buy Back payments will not be deposited into the ES Pension Plan trust and will not increase the Executive’s Qualified Plan Benefit.

Section A.05. Refund of Buy Back Payment. If, at some point, an Employee is no longer an Executive or otherwise becomes ineligible to receive an Executive Pension Supplement, any Executive Buy Back payments the Employee has made (including any interest the Employee paid) plus any other amount as defined in Section 2.16(b)(2) in the definition of Maximum Contribution paid by the Employee to the Company will be refunded, with interest at such time as the Employee meets one of the following criteria:

(a) Termination or retirement from a Participating Company or a Designated Entity; or
(b) Death;
provided, however, no refund will be made if the Employee is an eligible Executive, whether or not the amount of his or her Executive Pension Supplement exceeds zero. All interest rates will be determined at the discretion of the Committee.

Any amounts that are refundable under this Section A.05 that are not Grandfathered Amounts will be paid in a lump sum upon the Executive’s Separation from Service, subject to the six-month delay rule in Section E.02.

Section A.06, Effective Date. The provisions of this Appendix permitting Buy Backs will become effective on a date specified by resolution of the Committee specifically citing this Section.
APPENDIX B

Rehired Executives

Section B.01. Retired Executives Rehired as Executives. If an Executive who retired from a Participating Company or a Designated Entity and who received or is receiving an Executive Pension Supplement as a lump sum or on a monthly basis is rehired in an Executive position by a Participating Company, Designated Entity, or any other Affiliated Company, the following provisions apply:

(a) Monthly Payments: For an Executive with a monthly Executive Pension Supplement:

(1) The Plan will suspend all Executive Pension Supplement payments that are Grandfathered Amounts;

(2) If, but only if, the Executive is Retirement Eligible at the time of subsequent actual retirement:

(A) Previous years of Vesting Service and Executive Benefit Service accrued prior to the Executive’s retirement will be restored; and

(B) The Executive’s Executive Pension Supplement will be recalculated in accordance with the Plan at his or her subsequent actual retirement date as long as the Executive then meets all Plan benefit qualification requirements;

(3) The Executive, having previously met the requirement of five years of continuous service as an Executive prior to his or her first retirement, need not again meet that requirement;

(4) The Executive’s Average Annual Compensation will be computed without regard to the break in service, using zero for any periods during which the Executive was a retiree;

(5) If the Executive elected to take a lump sum Qualified Plan Benefit with respect to his or her initial retirement, then in any subsequent calculation of the Executive’s Executive Pension Supplement, the Executive’s Executive Pension Base will be reduced by both the Executive’s Qualified Plan Benefit received at the time of the initial retirement and the Executive’s Qualified Plan Benefit accrued from the date of rehire through the date of his or her subsequent retirement.

(6) If the Executive continued to receive payments that were not Grandfathered Amounts during the period of rehire, an actuarial reduction will apply at his subsequent termination.

(b) Lump Sums: For an Executive who received a lump sum Executive Pension Supplement and who is Retirement Eligible at the time of subsequent actual retirement:
(1) Previous years of Vesting Service will be restored but not previous years of Executive Benefit Service;

(2) The Plan will calculate the Executive’s additional Executive Pension Supplement at his or her subsequent actual retirement date on the basis of years of service after the rehire in accordance with the Plan as the Executive then meets all Plan benefit qualification requirements;

(3) The Executive, having previously met the requirement of five years of continuous service as an Executive prior to his or her first retirement, need not again meet that requirement;

(4) The Executive’s Average Annual Compensation will be computed without regard to the break in service, using zero for any periods during which the Executive was a retiree;

(5) If the Executive elected a monthly Qualified Plan Benefit with respect to his or her initial retirement, then the Executive’s Qualified Plan Benefit accrued from the date of rehire through the subsequent date of actual retirement will be subtracted from the Executive’s Executive Pension Base in calculating the Executive’s additional Executive Pension Supplement at his or her subsequent retirement.

Section B.02. Former Executives with Vested Pensions Rehired as Executives. If the employment of an Executive of a Participating Company or a Designated Entity who was eligible only for a vested pension under the relevant qualified defined benefit or Defined Contribution Plan, if any, was terminated and the Executive is rehired by a Participating Company, Designated Entity, or any other Affiliated Company, the following provisions apply:

(a) Previous years of Vesting Service and Executive Benefit Service accrued prior to the Executive’s termination of employment will be restored;

(b) The Executive must meet the requirement of five years of continuous service as an Executive prior to a subsequent actual retirement, counting only years of service after the rehire;

(c) Only base salary and incentive awards earned after the rehire will be used in computing Average Annual Compensation;

(d) If the Executive elected to take his or her vested pension as a lump sum, in any calculation of an Executive Pension Supplement at actual retirement, the Executive’s Executive Pension Base will be reduced by both the Executive’s Qualified Plan Benefit at the time of the initial termination of employment and the Executive’s Qualified Plan Benefit accrued from the date of rehire through the date of actual retirement.

Section B.03. Retired Executives Rehired in Non-Executive Positions. If an Executive who retired from a Participating Company or a Designated Entity and who received or is receiving an Executive Pension Supplement as a lump sum or on a monthly basis is rehired by a
Participating Company, Designated Entity, or any other Affiliated Company in a non-Executive position, the following provisions apply:

(a) For a former Executive who was receiving a monthly Executive Pension Supplement:

(1) The Plan will suspend all Executive Pension Supplement payments that are Grandfathered Amounts;

(2) If, but only if, the former Executive is still Retirement Eligible at the time of subsequent actual retirement, the Plan will recommence Executive Pension Supplement payments that were suspended at the time of the Executive’s subsequent actual retirement without recalculation of amount;

(3) At subsequent actual retirement, the former Executive may receive any form of payment of his or her Executive Pension Supplement then permitted under the Plan, as selected by the Committee.

(b) For a former Executive who received his or her Executive Pension Supplement as a lump sum, no further benefits will be paid by the Plan.

Section B.04, Events That Span Westinghouse Acquisition. This Plan is intended as essentially a continuation of the Westinghouse Plan (see Appendix C) and this Appendix is to be interpreted accordingly.

(a) Reductions for payments of Qualified Plan Benefits will be interpreted to include reductions for payments of similar benefits under Westinghouse plans.

(b) Determination of the form of Qualified Plan Benefits will take into account the form of payments under Westinghouse plans.

(c) The terms of this Appendix will be interpreted, where appropriate, to include the corresponding terms under the Westinghouse Plan and to take into account events both before and after the Westinghouse Acquisition.

Section B.05, Breaks Spanning March 1, 1996. There may be Executives who participated in the Westinghouse Plan but because of a break in their service did not become employees of the Affiliated Companies on March 1, 1996 as a result of the Westinghouse Acquisition.

(a) Those Executives might be hired later by the Electronic Sensors & Systems Division.

(b) They will in no case be entitled to service or compensation credits or benefits under this Plan with respect to any service or compensation prior to their first hire by the Electronic Sensors & Systems Division after March 1, 1996. The Executives will not be considered to have previously met the requirement of five years of continuous service as an Executive.
APPENDIX C

Coordination With Westinghouse Plan

Section C.01. In General. As part of the Westinghouse Acquisition, this Plan was established by Northrop Grumman Corporation. As of the Distribution Date, the Company replaces Northrop Grumman Corporation for purposes of this Appendix.

(a) This Plan is intended to be a continuation of the Westinghouse Plan with only minor changes.

(b) This Plan assumes remaining liabilities of the Westinghouse Plan with regard to those participants of the Westinghouse Plan who became Employees of the Northrop Grumman controlled group on March 1, 1996 as a result of the Westinghouse Acquisition. Accordingly, benefits earned by Participants of this Plan under the Westinghouse Plan before March 1, 1996 are payable under this Appendix.

(c) Employees first hired after the Westinghouse Acquisition will therefore not be affected by this Appendix and will have their pension benefits governed entirely by the other Articles and Appendices of this Plan.

Section C.02. Pre-Acquisition Benefits.

(a) Except as provided in Sections C.03 and C.04, benefits earned under the Westinghouse Executive Pension Plan are in addition to the benefits which may be earned under Articles 4 and 5.

(b) The Westinghouse Plan benefits will be calculated taking into account all pertinent facts for determining benefits under the Westinghouse Plan’s provisions (including benefits and contributions under Westinghouse plans) as they have existed from time to time.

Section C.03. Coordination of Pre and Post-Acquisition Benefits. The Plan will be interpreted in light of events before and after the Westinghouse Acquisition to coordinate the calculation of benefits (including service and compensation components, benefits and contributions under Westinghouse plans and rehire provisions) under this Appendix and benefits based on Articles 4 and 5 so that the Plan will function as if it were essentially a continuation of the Westinghouse Plan.

Section C.04. No Duplication of Benefits. Because this Plan is intended as a continuation of the Westinghouse Plan, this Plan will not pay any benefits already paid or payable by the Westinghouse Plan itself.
APPENDIX D

2005-2007 Transition Rules

This Appendix D provides the distribution rules that apply to the portion of benefits under the Plan subject to Code section 409A for Executives with benefit commencement dates after January 1, 2005 and before January 1, 2008.

Section D.01. Election. Executives scheduled to commence payments during 2005 may elect to receive both pre-2005 benefit accruals and 2005 benefit accruals in any optional form of benefit available under the Plan as of December 31, 2004. Executives electing optional forms of benefits under this provision will commence payments on the Executive’s selected benefit commencement date.

Section D.02. 2005 Commencements. Pursuant to IRS Notice 2005-1, Q&A-19 & Q&A-20, Executives commencing payments in 2005 from the Plan may elect a form of distribution from among those available under the Plan on December 31, 2004, and benefit payments shall begin at the time elected by the Executive.

(a) Key Employees. A Key Employee Separating from Service on or after July 1, 2005, with Plan distributions subject to Code section 409A scheduled to be paid in 2006 and within six months of his date of Separation from Service, shall have such distributions delayed for six months from the Key Employee’s date of Separation from Service. The delayed distributions shall be paid as a single sum with interest at the end of the six month period and Plan distributions will resume as scheduled at such time. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years). Alternatively, the Key Employee may elect under IRS Notice 2005-1, Q&A-20 to have such distributions accelerated and paid in 2005 without the interest adjustment, provided, such election is made in 2005.

(b) Lump Sum Option. During 2005, a temporary immediate lump sum feature shall be available as follows:

(1) In order to elect a lump sum payment pursuant to IRS Notice 2005-1, Q&A-20, an Executive must be an elected or appointed officer of the Company and eligible to commence payments under the underlying qualified pension plan on or after June 1, 2005 and on or before December 1, 2005;

(2) The lump sum payment shall be made in 2005 as soon as feasible after the election; and

(3) Interest and mortality assumptions and methodology for calculating lump sum amount shall be based on the Plan’s procedures for calculating lump sums as of December 31, 2004.

Section D.03. 2006 and 2007 Commencements. Pursuant to IRS transition relief, for all benefit commencement dates in 2006 and 2007 (provided election is made in 2006 or 2007),
distribution of Plan benefits subject to Code section 409A shall begin 12 months after the later of: (a) the Executive’s benefit election date, or (b) the underlying qualified pension plan benefit commencement date (as specified in the Executive’s benefit election form). Payments delayed during this 12-month period will be paid at the end of the period with interest. Interest shall be computed using the retroactive annuity starting date rate in effect under the Northrop Grumman Pension Plan on a month-by-month basis during such period (i.e., the rate may change in the event the period spans two calendar years).

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APPENDIX E
Post 2007 Distribution of 409A Amounts

The provisions of this Appendix E shall apply only to the portion of benefits under the Plan that are subject to Code section 409A with benefit commencement dates on or after January 1, 2008. Distribution rules applicable to the Grandfathered Amounts are set forth in Article VII, and Appendix D addresses distributions of amounts subject to Code section 409A with benefit commencement dates after January 1, 2005 and prior to January 1, 2008.

Section E.01. Time of Distribution. Subject to the special rules provided in this Appendix E, distributions to an Executive of his vested retirement benefit shall commence as of the Payment Date.

Section E.02. Special Rule for Key Employees. If an Executive is a Key Employee and age 55 or older at his Separation from Service, distributions to the Executive shall commence on the first day of the seventh month following the date of his Separation from Service (or, if earlier, the date of the Executive’s death). Amounts otherwise payable to the Executive during such period of delay shall be accumulated and paid on the first day of the seventh month following the Executive’s Separation from Service, along with interest on the delayed payments. Interest shall be computed using the retroactive annuity starting date rate in effect under the Huntington Ingalls Industries Pension Plan on a month-by-month basis during such delay (i.e., the rate may change in the event the delay spans two calendar years).

Section E.03. Forms of Distribution. Subject to the special rules provided in this Appendix E, an Executive’s vested retirement benefit shall be distributed in the form of a single life annuity. However, an Executive may elect an optional form of benefit up until the Payment Date. The optional forms of payment are:

(a) 50% joint and survivor annuity
(b) 75% joint and survivor annuity
(c) 100% joint and survivor annuity.

If an Executive is married on his Payment Date and elects a joint and survivor annuity, his survivor annuitant will be his spouse unless some other survivor annuitant is named with spousal consent. Spousal consent, to be effective, must be submitted in writing before the Payment Date and must be witnessed by a Plan representative or notary public. No spousal consent is necessary if the Company determines that there is no spouse or that the spouse cannot be found.

Section E.04. Death. If a married Executive dies before the Payment Date, a death benefit will be payable to the Executive’s spouse commencing 90 days after the Executive’s death. The death benefit will be a single life annuity in an amount equal to the survivor portion of an Executive’s vested retirement benefit based on a 100% joint and survivor annuity determined on the Executive’s date of death. This benefit is also payable to an Executive’s
domestic partner who is properly registered with the Company in accordance with procedures established by the Company.

Section E.05. Actuarial Assumptions. Except as provided in Section E.06, all forms of payment under this Appendix E shall be actuarially equivalent life annuity forms of payment, and all conversions from one such form to another shall be based on the following actuarial assumptions:

Interest Rate: 6%

Mortality Table: RP-2000 Mortality Table projected 15 years for future standardized cash balance factors

Section E.06. Accelerated Lump Sum Payouts.

(a) Post-2007 Separations. Notwithstanding the provisions of this Appendix E, for Executives who Separate from Service on or after January 1, 2008, if the present value of (a) the vested portion of an Executive’s retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date of his Separation from Service, is less than or equal to $25,000, such benefit amount shall be distributed to the Executive (or his spouse or domestic partner, if applicable) in a lump sum payment. Subject to the special timing rule for Key Employees under Section E.02, the lump sum payment shall be made within 90 days after the first of the month coincident with or following the date of the Executive’s Separation from Service.

(b) Pre-2008 Separations. Notwithstanding the provisions of this Appendix E, for Executives who Separate from Service before January 1, 2008, if the present value of (a) the vested portion of an Executive’s retirement benefit and (b) other vested amounts under nonaccount balance plans that are aggregated with the retirement benefit under Code section 409A, determined on the first of the month coincident with or following the date the Executive attains age 55, is less than or equal to $25,000, such benefit amount shall be distributed to the Executive (or his spouse or domestic partner, if applicable) in a lump sum payment within 90 days after the first of the month coincident with or following the date the Executive attains age 55, but no earlier that January 1, 2008.

(c) Conflicts of Interest. The present value of an Executive’s vested retirement benefit shall also be payable in an immediate lump sum to the extent required under conflict of interest rules for government service and permissible under Code section 409A.

(d) Present Value Calculation. The conversion of an Executive’s retirement benefit into a lump sum payment and the present value calculations under this Section E.06 shall be based on the actuarial assumptions in effect under the Huntington Ingalls Industries Pension Plan for purposes of calculating lump sum amounts, and will be based on the Executive’s immediate benefit if the Executive is 55 or older at Separation from Service. Otherwise, the calculation will be based on the benefit amount the Executive will be eligible to receive at age 55.
Section E.07. Effect of Early Taxation. If the Executive's benefits under the Plan are includible in income pursuant to Code section 409A, such benefits shall be distributed immediately to the Executive.

Section E.08. Permitted Delays. Notwithstanding the foregoing, any payment to an Executive under the Plan shall be delayed upon the Company’s reasonable anticipation of one or more of the following events:

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

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

provided, that any payment delayed pursuant to this Section E.08 shall be paid in accordance with Code section 409A.
APPENDIX F

Northrop Grumman Spin-Off

Section F.01. Background. The Company was a subsidiary of Northrop Grumman Corporation (“NGC”) prior to the Distribution Date. On the Distribution Date, pursuant to an agreement between the Company and NGC, the liabilities for certain participants’ benefits under the Northrop Grumman Electronic Systems Executive Pension Plan (the “NGC Plan”), including Grandfathered Amounts, were transferred to the Company and to this Plan. The participants whose benefits were transferred to this Plan on the Distribution Date and other participants who were employees of the Affiliated Companies on the Distribution Date are referred to below as “NGC Participants.” The rules in this Appendix shall apply to NGC Participants and certain other Plan terms notwithstanding any Plan provisions to the contrary.

Section F.02. Plan Benefits. NGC Participants who qualified as eligible employees under the NGC Plan on the Distribution Date shall be eligible employees under this Plan on such date. All service and compensation that would be taken into account for purposes of determining the amount of a NGC Participant’s benefit or his vested right to a benefit under the NGC Plan as of the Distribution Date shall be taken into account for the same purposes under this Plan, including for purposes of Appendix B.

Section F.03. Distributions. The terms of this Plan shall govern the distribution of all benefits payable to a NGC Participant or any other person with a right to receive such benefits, including amounts accrued under the NGC Plan and then transferred to this Plan.

Section F.04. Termination and Key Employees. For avoidance of doubt, no NGC Participant shall be treated as incurring a separation from service, termination of employment, retirement, or similar event, or to have experienced a Change in Control, for purposes of determining the right to a distribution (for amounts subject to Code section 409A or otherwise), vesting (including under section 3.01(d)), benefits, or any other purpose under the Plan as a result of NGC’s distribution of Company shares to NGC’s shareholders. Also, the Company’s Key Employees shall be determined in accordance with the special rules for spin-offs under Treas. Reg. §1.409A-1(i)(6)(iii), or any successor thereto, for the period indicated in such regulation.

Section F.05. Participant Elections. All elections made by NGC Participants under the NGC Plan, including any payment elections or beneficiary designations, shall apply to the same effect under this Plan as if made under the terms of this Plan.

Section F.06. References to Plan. All references in this Plan to the “Plan” as in effect before the effective date of the Plan shall be read as references to the NGC Plan.

Section F.07. Right to Benefits. With respect to any service or compensation used to determine a benefit provided or due under the NGC Plan at any time, no benefit will be due under the Plan except with respect to such service and compensation related to a liability transferred from the NGC Plan to the Plan on the Distribution Date. Additionally, on and after the Distribution Date, NGC and the NGC Plan, and any successors thereto shall have no further
obligation or liability to any NGC Participant with respect to any benefit, amount, or right due under the NGC Plan.
1.01 **Purpose and History.** The purpose of the Huntington Ingalls Industries, Inc. Special Officer Retiree Medical Plan ("Plan") is to provide lifetime retiree medical and life insurance benefits accrued by the Chief Executive Officer of Huntington Ingalls Industries, Inc. (the "Company") while he was a Corporate Policy Council Member of Northrop Grumman Corporation and participated in the Northrop Grumman Special Officer Retiree Medical Plan (the "Participant"). The Plan was established through the spin-off of the portion of the Northrop Grumman Corporation Special Officer Retiree Medical Plan (the "NGC Plan") consisting of the NGC Plan’s obligation to provide benefits to the Participant and his eligible dependents as defined in the NGC Plan. The Plan is effective as of the “Distribution Date” as defined under the Separation and Distribution Agreement among Northrop Grumman Corporation, the Company and New P, Inc., pursuant to which Northrop Grumman Corporation distributed the shares of the Company as described in the Agreement (the “Spinoff”). The Plan provides for the continuation after retirement of welfare benefits to a select group of management or highly compensated employees within the meaning of Department of Labor Regulation 29 CFR section 2520.104-24 and Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974 (“ERISA”).

1.02 **Substantive Benefits.** This document describes the eligibility provisions and terms of coverage under the Plan. The actual medical and life insurance coverage will be provided pursuant to the terms of the insurance contract or contracts issued by an insurance carrier or carriers selected by the Company.

**ARTICLE 2 DEFINITIONS**

2.01 **Board.** The Company’s Board of Directors.

2.02 **Committee.** The Compensation Committee of the Board.

2.03 **Continuation Coverage.** Continued medical coverage under the Plan after a Qualifying Event has occurred. Such medical coverage is identical to the medical coverage as provided under the Plan to similarly situated persons with respect to whom a Qualifying Event has not occurred.

2.04 **Continuation Coverage Election Period.** The period beginning on the date of the Qualifying Event and ending sixty (60) days after the later of (a) the date the Qualified Beneficiary would lose medical coverage on account of the Qualifying Event, or (b) the date that the Qualified Beneficiary is provided with notice of his or her right to elect Continuation Coverage.
2.05 **Qualified Beneficiary.** The Participant’s spouse or dependent who, on the day before a Qualifying Event, has medical coverage under the Plan. In the case of a Qualifying Event described in subsection 2.06(iv) below, Qualified Beneficiary means the Participant, if he had retired on or before the date of substantial elimination of medical coverage and any person who on the day before the Qualifying Event is the spouse or Surviving Spouse of the retired Participant or a covered dependent child of the retired Participant or Surviving Spouse.

2.06 **Qualifying Event.** Any of: (i) the Participant’s death after his retirement, but only with respect to a beneficiary who is not the Surviving Spouse of the retired Participant; (ii) the Participant’s divorce or legal separation from his spouse after the Participant’s retirement; (iii) a dependent child ceasing to be eligible for medical coverage as a dependent child of the retired Participant under the dependent eligibility provisions of the insurance contract through which coverage is provided; or (iv) a proceeding in a case under Title 11 of the United States Code with respect to the Company; provided, however, that any such event will be a Qualifying Event only if it will cause the Qualified Beneficiary an immediate or deferred loss of medical coverage under the Plan. For purposes of this subsection, a loss of medical coverage means to cease to be eligible for medical benefits under the Plan under the same terms and conditions as in effect immediately before the Qualifying Event. A loss of medical coverage will be considered a deferred loss of medical coverage for purposes of this provision if the loss of medical coverage does not occur at the time of the Qualifying Event but occurs before the end of what would be the maximum period of Continuation Coverage under section 7.04 below. In the case of a Qualifying Event described in (iv), a loss of medical coverage includes a substantial elimination of medical coverage with respect to a Qualified Beneficiary within one year before or after the date of commencement of the bankruptcy proceeding.

2.07 **Surviving Spouse.** The individual to whom the retired Participant was legally married under applicable State law both at the time of his retirement and at the time of his death.

**ARTICLE 3 ELIGIBILITY**

3.01 **Eligibility.** Eligibility for the Plan is limited to the Participant and his eligible spouse and dependents, who will be eligible for medical benefits under the Plan commencing at the same time the Participant’s medical benefits commence. Spouse and dependent eligibility will be determined in accordance with the terms of the insurance contract through which coverage is provided. The Participant’s eligibility for life insurance coverage will be subject to the terms of the life insurance contract or contracts through which such coverage is provided. The Participant’s spouse and dependents are not eligible for life insurance coverage under the Plan.

3.02 **Revocation of Eligibility.** The Board or Committee may revoke the Participant’s or Surviving Spouse’s Plan eligibility, provided that the Participant or, after the Participant’s death, his Surviving Spouse, consents to the revocation.

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3.03 **Automatic Cessation of Eligibility.** The spouse or dependent of the Participant will cease to be eligible for medical benefits under the Plan upon the earlier of the following: (i) the date the Participant ceases to participate under the Plan; or (ii) the date the spouse or dependent ceases to be eligible in accordance with the terms of the insurance contract through which coverage is provided.

**ARTICLE 4 COMMENCEMENT OF BENEFITS AND COSTS**

4.01 **Commencement of Benefits.** The Participant may elect to commence benefits under the Plan coincident with retirement from the Company under the terms of the supplemental executive retirement plan in which the Participant participates. If the election to commence is not made at the time of retirement, the Participant and his dependents cease to be eligible for the Plan. No subsequent election to commence benefits will be allowed.

4.02 **Duration of Benefits.** Subject to the Company’s right to amend or terminate the Plan (as limited by subsection 5.01(a)), life insurance coverage will be provided for the life of the Participant and medical coverage will be provided for the life of the Participant and the life of his Surviving Spouse, if any. Eligible dependent medical coverage will only be available during the life of the Participant and the life of his Surviving Spouse, if any, subject to ARTICLE 7.

4.03 **Coverage Provided.** Medical and life insurance coverage will be provided pursuant to the terms of the insurance contract or contracts issued by an insurance carrier or carriers selected by the Company and is subject to the Company’s ability to purchase such coverage. Life insurance coverage will be in the amount of $450,000 at the Participant’s retirement and will be reduced by $50,000 effective as of each January 1 thereafter until the amount reaches $250,000.

4.04 **Medicare.** The Participant, spouse or Surviving Spouse must enroll in Medicare Parts A and B when first eligible in order to receive benefits under this Plan. If he or she fails to enroll, medical benefit coverage under this Plan will cease upon the date the Participant, spouse or Surviving Spouse first becomes eligible for Medicare Parts A and B.

4.05 **Costs of Coverage.**

   (a) **Medical Coverage.**

   (i) The Participant (or Surviving Spouse, following the death of the Participant) will be responsible for any participant cost items, such as contributions toward the cost of coverage, copayments, and deductibles, as determined by the Company in its discretion and described in the insurance contract through which coverage is provided; provided, however, that subject to subsection (a)(ii) below, the level of participant contributions toward the cost of coverage will be frozen as of the date the Participant commences benefits under this Plan.

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(ii) The Participant’s or Surviving Spouse’s contribution toward the cost of coverage may vary based on the level of coverage (one-person, two or more persons, etc.) in effect.

(b) Life Insurance Coverage. The cost of life insurance coverage will be paid in full by the Company.

4.06 Cessation of Medical Coverage. Eligibility for the continuation of medical benefits pursuant to the Plan will cease if any payment required to be made by the Participant or dependent (for example, participant contributions, copayments or deductibles) is not timely paid in accordance with procedures established by the Company.

ARTICLE 5 CHANGE IN CONTROL

5.01 Effect of Change in Control. Upon the occurrence of a “change in control” as defined in the Company’s long-term incentive stock plan (as in effect at the time of the event), each of the following will occur:

(a) The Plan may not be terminated or amended in any manner that adversely affects the benefits of the Participant without his consent.

(b) The Participant’s contributions toward the cost of coverage and co-pays, deductibles and any other participant or dependent cost items pursuant to the terms of the insurance contract through which coverage is provided will be frozen as of the date of the change in control.

ARTICLE 6 CLAIMS AND APPEALS PROCEDURES

6.01 Claim for Medical or Life Insurance Benefit. A claim or appeal relating to medical or life insurance benefits under the Plan will be subject to the claims and appeals procedures set forth in the insurance contract through which such coverage is provided or the applicable coverage certificate relating to such insurance contract.

6.02 Administrative Claims. A claim or appeal that is not a claim or appeal relating to a medical or life insurance benefit under the Plan will be considered an “Administrative Claim” and will be subject to the claims and appeals procedures set forth in this section 6.02. Administrative Claims will be decided by the Senior Vice President Human Resources and Administration, or his or her delegate, who will be the claims administrator and the appropriate named fiduciary with respect to such claims.

(a) Notice of decision on any Administrative Claim will be furnished to the claimant within 90 days after receipt of the Administrative Claim by the claims administrator. The claims administrator may take one 90 day extension if circumstances warrant.

(b) A claimant whose Administrative Claim is denied in whole or in part will receive written notice of the denial within the timeframe specified in subsection 6.02(a) above setting forth: (i) the specific reasons for the denial; (ii) reference to the Huntington Ingalls Industries, Inc. Special Officer Retiree Medical Plan

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specific Plan provisions on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the Administrative Claim and an explanation of why such material or information is necessary; and (iv) information as to the steps the claimant must take to submit his or her claim for review, including the time limit for submitting the claim for review.

(c) A claimant whose Administrative Claim is denied in whole or in part may request review of the denied Administrative Claim not later than 60 days after receipt of written notification of the denial. A claimant’s request for review must be in writing. The claimant may submit written comments, documents, records and other information relating to the Administrative Claim and the claimant will be provided upon request with reasonable access to and copies of documents, records and other information relevant to his or her Administrative Claim. The claims administrator, in his or her sole discretion, will determine whether a document, record or other information is relevant to a claimant’s Administrative Claim.

(d) Notice of decision on review of an Administrative Claim will be furnished to the claimant within 60 days after receipt of the request for review by the claims administrator. The claims administrator may take one 60 day extension if circumstances warrant.

(e) A claimant whose Administrative Claim is denied upon review will be furnished with written notice of the denial within the timeframe specified in subsection 6.02(d) above setting forth: (i) the specific reasons for the denial; (ii) reference to the specific Plan provisions on which the denial is based; (iii) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of documents, records and other information relevant to his or her Administrative Claim; and (iv) a statement of the claimant’s right to bring an action under section 502(a) of ERISA. The claims administrator, in his or her sole discretion, will determine whether a document, record or other information is relevant to a claimant’s Administrative Claim. The decision of the claims administrator on a claimant’s request for review shall be final and conclusive.

ARTICLE 7 CONTINUATION OF MEDICAL COVERAGE

7.01 General. In addition to the Surviving Spouse medical coverage described above, Continuation Coverage under the Plan may be purchased after the date medical coverage would ordinarily terminate under the Plan as a result of a Qualifying Event.

7.02 Participant/Beneficiary Notice Requirements. In the case of the Qualifying Events described in subsections 2.06(ii) and (iii) above, the retired Participant or his spouse or dependent must provide notice of the occurrence of the Qualifying Event not later than 60 days after the occurrence. Such notice must be provided to the COBRA administrator designated by the Company.
7.03 **Availability of Continuation Coverage.** Upon the occurrence of a Qualifying Event, each Qualified Beneficiary will be offered an opportunity to purchase Continuation Coverage under the Plan. The election to purchase Continuation Coverage must be made during the Continuation Coverage Election Period in such form and manner as the Company prescribes. A Qualified Beneficiary who fails to elect Continuation Coverage during the Continuation Coverage Election Period following a Qualifying Event will not be entitled to elect Continuation Coverage with respect to such Qualifying Event.

7.04 **Period of Continuation Coverage.** Continuation Coverage as elected by the Qualified Beneficiary will extend for the period beginning on the date of loss of coverage as a result of the Qualifying Event and ending on the earliest of the following dates:

(a) If the Qualifying Event was divorce or legal separation, death of the retired Participant, or loss of dependent child status, 36 months after the date Continuation Coverage began;

(b) If the Qualifying Event was a proceeding in a case under Title 11 of the United States Code: (i) for a Qualified Beneficiary who is the retired Participant, the retired Participant’s date of death; (ii) for a Qualified Beneficiary who is the surviving spouse (determined without regard to whether such spouse was married to the Participant at the time of his termination of employment with the Company and its affiliates) or dependent child of the retired Participant, 36 months after the date of death of the retired Participant;

(c) The first day for which timely payment for Continuation Coverage is not made with respect to the Qualified Beneficiary as provided in section 7.05 below;

(d) The date upon which the Company ceases to maintain any group health plan;

(e) The date upon which the Qualified Beneficiary first becomes covered under another group health plan after the date Continuation Coverage is elected; provided, Continuation Coverage will not terminate if the other group health plan contains an exclusion or limitation with respect to any preexisting condition that affects the Qualified Beneficiary, unless that limitation or exclusion does not apply to the Qualified Beneficiary because of the requirements of the Health Insurance Portability and Accountability Act of 1996;

(f) The date that the Qualified Beneficiary first becomes entitled to Medicare benefits under Title XVIII of the Social Security Act after the date Continuation Coverage is elected.

Notwithstanding anything herein to the contrary, the Company may terminate the Continuation Coverage of a Qualified Beneficiary on the same basis that the Company may terminate medical coverage under the Plan for a similarly situated individual with respect to whom a Qualifying Event has not occurred.

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7.05 Payment for Continuation Coverage.

(a) Each Qualified Beneficiary who has elected to purchase Continuation Coverage will make a monthly payment to the Company in an amount up to 102% of the applicable premium determined by the Company in accordance with Internal Revenue Code Section 4980B(f)(4).

(b) The payment for the period of Continuation Coverage beginning on the date a Qualified Beneficiary would otherwise lose coverage as a result of a Qualifying Event and ending on the last day of the month during which the Qualified Beneficiary elects Continuation Coverage will be due on the date the Qualified Beneficiary elects Continuation Coverage and payment made within forty-five (45) days of such date will be deemed timely payment. The monthly payments for the remainder of the period of Continuation Coverage will be due as of the first day of the month for which the coverage is provided and payment made within thirty (30) days of the due date for each monthly installment will be deemed timely payment.

ARTICLE 8 GENERAL PROVISIONS

8.01 Amendment and Plan Termination. Except as provided in ARTICLE 5, the Company may amend or terminate the Plan at any time for any reason.

8.02 Assignment of Benefits. The Participant or dependent may not, either voluntarily or involuntarily, assign, anticipate, alienate, commute, sell, transfer, pledge or encumber any benefits to which he or she is or may become entitled under the Plan, nor may Plan benefits be subject to attachment or garnishment by any of his or her creditors or to legal process.

8.03 Nonduplication of Benefits. This Section applies if the Company is required to make payments under this Plan to a person or entity other than the payees described in the Plan. In such a case, any coverage due the Participant (or his dependent) under the Plan will be reduced by the actuarial value of the coverage extended or payments made to such other person or entity.

8.04 Medicare Primary. Medicare coverage is primary to medical coverage offered pursuant to the Plan. Plan coverage will be secondary to Medicare to the maximum extent permissible under law.

8.05 Funding. Participants have the status of general unsecured creditors of the Company and the Plan constitutes a mere promise by the Company to continue eligibility for executive medical and life insurance coverage pursuant to the terms of the Plan.

8.06 Construction. The Committee will have full and sole discretionary authority to determine eligibility, construe and interpret the terms of the Plan, and determine factual issues, including the power to remedy possible ambiguities, inconsistencies or omissions.

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8.07 **Governing Law.** This Plan will be governed by the law of the Commonwealth of Virginia, except to the extent superseded by federal law.

8.08 **Non-Standard Provisions.** The Board or Committee may in their discretion apply eligibility requirements or terms of coverage other than the standard provisions with respect to an individual.

HUNTINGTON INGALLS INDUSTRIES, INC.

By: 

________________________________________

Date: 

________________________________________

Huntington Ingalls Industries, Inc.
Special Officer Retiree Medical Plan
1. Purpose
The purpose of the Huntington Ingalls Industries, Inc. 2011 Long-Term Incentive Stock Plan (the “Plan”) is to promote the long-term success of Huntington Ingalls Industries, Inc. (the “Company”) and to increase stockholder value by providing its directors, officers and selected employees with incentives to create excellent performance and to continue service with the Company, its subsidiaries and affiliates. Both by encouraging such directors, officers and employees to become owners of the common stock of the Company and by providing actual ownership through Plan awards, it is intended that Plan participants will view the Company from an ownership perspective.

2. Term
The Plan shall become effective upon the approval by the stockholders of the Company (the “Effective Time”). Unless previously terminated by the Company’s Board of Directors (the “Board”), the Plan shall terminate at the close of business on the day before the tenth anniversary of the Board’s approval of the Plan. After termination of the Plan, no future awards may be granted but previously granted awards (and the Committee’s (as such term is defined in Section 3) authority with respect thereto) shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of the Plan.

3. Plan Administration
(a) The Plan shall be administered by the Compensation Committee (or its successor) of the Board; provided that the Plan shall be administered by the Board as to any award granted or to be granted, as the case may be, to a member of the Board who (at the time of grant of the award) is not employed by the Company or one of its subsidiaries. Subject to the following provisions of this Section 3(a), the Compensation Committee (or its successor) may delegate different levels of authority to make grants under the Plan to different committees, provided that each such committee consists of one or more members of the Board. With respect to awards intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), the Plan shall be administered by a committee consisting of two or more outside directors (as this requirement is applied under Section 162(m) of the Code). Transactions in or involving awards intended to be exempt under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “1934 Act”), must be duly and timely authorized by the Board or a committee of non-employee directors (as this term is used in or under Rule 16b-3). (The appropriate acting body, be it the Board, Compensation Committee or another duly authorized committee of directors, is referred to as “Committee”.)

(b) The Committee shall have full and exclusive power to interpret the Plan and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which power shall be executed in the best interests of the Company and in
keeping with the objectives of the Plan. This power includes, but is not limited to, selecting award recipients, establishing all award terms and conditions and 
adopting modifications, amendments and procedures, including subplans and the like as may be necessary to comply with provisions of the laws and 
applicable regulatory rulings of countries in which the Company (or its subsidiaries or affiliates, as applicable) operates in order to assure the viability of 
awards granted under the Plan and to enable participants employed in such countries to receive advantages and benefits under the Plan and such laws and 
rulings. In no event other than as contemplated by Section 6, however, shall the Committee or its designee have the right to cancel or amend outstanding stock 
options for the purpose of repricing, replacing or regranting such options with a purchase price that is less than the purchase price of the original option.

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

4. Eligibility

The Committee may grant one or more awards under the Plan to any individual or individuals who, at the time of grant of the particular award, are 
employed by the Company or are a member of the Board. For this purpose, individuals eligible to receive awards include any former employees of the 
Company and former members of the Board eligible to receive an assumed or replacement award as contemplated in Sections 5 and 6. For purposes of this 
Section 4, “Company” includes any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant 
equity interest, as determined by the Committee.

5. Shares of Common Stock Subject to the Plan and Grant Limits

(a) Subject to Section 6 of the Plan, the aggregate number of shares of common stock of the Company (“Common Stock”) which may be issued or 
transferred pursuant to awards under the Plan shall not exceed \[ \text{[_______]} \] shares. For purposes of the Plan, (x) any shares of Common Stock which are 
forfeited back to the Company under the Plan, and (y) any shares which have been exchanged by a participant as full or partial payment to the Company in 
connection with any award under the Plan, as well as any shares exchanged by a participant or withheld by the Company to satisfy the tax withholding 
obligations related to an award under the Plan, shall be available for issuance under the Plan in subsequent periods.

(b) The maximum number of shares of Common Stock that may be delivered pursuant to stock options qualified as incentive stock options under 
Section 422 of the Code (“ISOs”) is \[ \text{[_________]} \] shares.

(c) In instances where a stock appreciation right (“SAR”) or other award is settled in cash or a form other than shares, the shares that would have been 
issued had there been no cash or other settlement shall not be counted against the shares available for issuance under the Plan. The payment of cash dividends 
and dividend equivalents in conjunction with outstanding awards shall not be counted against the shares available for issuance under the Plan. Any shares 
that are
issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company (or previously granted by a predecessor employer (or direct or indirect parent thereof) in the case of persons that become employed by the Company (or a subsidiary or affiliate) in connection with a business or asset acquisition or similar transaction) shall not be counted against the shares available for issuance under the Plan. For purposes of clarity, any shares that are issued and any awards that are granted by the Company under the Plan in connection with the Company’s spin-off from Northrop Grumman Corporation (the “Spin-Off”) in substitution for awards originally granted by Northrop Grumman Corporation shall be counted against the Plan’s share limits specified in Section 5(a), but not for purposes of the other applicable share limits under the Plan.

(d) Any shares issued under the Plan may consist in whole or in part of authorized and unissued shares or of treasury shares, and no fractional shares shall be issued under the Plan. Cash may be paid in lieu of any fractional shares in settlements of awards under the Plan.

(e) In no event shall the total number of shares of Common Stock that may be awarded to any eligible participant during any three year period pursuant to stock option grants and SAR grants hereunder exceed \( \_\_\_ \) shares. In no event shall “Performance-Based Awards” under Section 8(c)(ii) (other than stock options or SARs, and without giving effect to any related dividend equivalents) that are granted to any eligible participant during any three consecutive years relate to or provide for payment of more than \( \_\_\_ \) shares of Common Stock.

(f) Adjustments to the Plan’s aggregate share limit pursuant to Section 5(a), as well as the provisions of Section 5(c), are subject to any applicable limitations under Section 162(m) of the Code with respect to awards intended as performance-based compensation thereunder. The limits set forth in Sections 5(b) and 5(e) shall apply with respect to all Plan awards regardless of whether the underlying shares are attributable to the fixed number of shares made available for Plan award purposes or otherwise.

6. Adjustments and Reorganizations

(a) Upon (or, as may be necessary to effect the adjustment, immediately prior to): any reclassification, recapitalization, stock split (including a stock split in the form of a stock dividend) or reverse stock split; any merger, combination, consolidation, or other reorganization; any spin-off, split-up, or similar extraordinary dividend distribution in respect of the Common Stock; or any exchange of shares of Common Stock or other securities of the Company, or any similar, unusual or extraordinary corporate transaction in respect of the Common Stock; then the Committee shall equitably and proportionately adjust (1) the number and type of shares of Common Stock (or other securities) that thereafter may be made the subject of awards (including the specific share limits, maximums and numbers of shares set forth elsewhere in this Plan), (2) the number, amount and type of shares of Common Stock (or other securities or property) subject to any outstanding awards, (3) the grant, purchase, or exercise price (which term includes the base price of any SAR or similar right) of any outstanding awards, and/or (4) the securities, cash or other property deliverable upon exercise or payment of any outstanding awards, in each case

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to the extent necessary to preserve (but not increase) the level of incentives intended by this Plan and the then-outstanding awards.

Unless otherwise expressly provided in the applicable award agreement, upon (or, as may be necessary to effect the adjustment, immediately prior to) any event or transaction described in the preceding paragraph or a sale of all or substantially all of the business or assets of the Company as an entirety, the Committee shall equitably and proportionately adjust the performance standards applicable to any then-outstanding performance-based awards to the extent necessary to preserve (but not increase) the level of incentives intended by the Plan and the then-outstanding performance-based awards.

It is intended that, if possible, any adjustments contemplated by the preceding two paragraphs be made in a manner that satisfies applicable legal, tax (including, without limitation and as applicable in the circumstances, Section 424 of the Code, Section 409A of the Code and Section 162(m) of the Code) and accounting (so as to not trigger any charge to earnings with respect to such adjustment) requirements.

(b) Notwithstanding anything to the contrary in Section 6(a), the provisions of this Section 6(b) shall apply to an outstanding Plan award if a Change in Control (as defined in Section 6(e)) occurs. 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: (i) if the award is a stock option, it shall vest fully and completely, any and all restrictions on exercisability or otherwise shall lapse, and it shall be fully exercisable; (ii) if the award is a SAR, it shall vest fully and completely, any and all restrictions on such SAR shall lapse, and it shall be fully exercisable; and (iii) if such award is an award or grant under Section 8(c) of the Plan, it shall immediately vest fully and completely, and all restrictions shall lapse, provided, however, that if the award is performance-based, the earnout or payout of the award, as applicable, shall be computed based on the performance terms of the award and based on actual performance achieved to the date of the Change in Control. No acceleration of vesting, exercisability and/or payment of an outstanding Plan award shall occur in connection with a Change in Control if either (i) the Company is the surviving entity, or (ii) the successor to the Company (if any) (or a parent thereof) agrees in writing prior to the Change in Control to assume the award; provided, however, that individual awards may provide for acceleration under these circumstances as contemplated by Section 6(c) below. If a stock option or other award is fully vested or becomes fully vested as provided in this paragraph but is not exercised or paid 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 award following the Change in Control, or if for any other reason the award 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 award was paid or exercised simultaneously with the Change in Control and based upon the then Fair Market Value of a share of Common Stock and subject, in the case of a performance-based award, to the Change in Control payment provisions set forth above). An option or other award so settled by the
Committee shall automatically terminate. If, in such circumstances, the Committee does not provide for the cash settlement of an option or other award, then upon the Change in Control such option or award 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 such option or right; provided that the option or award holder shall be given reasonable notice of such intended termination and an opportunity to exercise the option or award (to the extent an award other than an option must be exercised in order for the participant to realize the intended benefits) prior to or upon the Change in Control.

(c) Notwithstanding the provisions of Section 6(b), awards issued under the Plan may contain specific provisions regarding the consequences of a Change in Control and, if contained in an award, those provisions shall be controlling in the event of any inconsistency. (For example, and without limitation, an award may provide that (i) acceleration of vesting will occur automatically upon a Change in Control, or (ii) acceleration will occur in connection with a Change in Control if the participant is terminated by the Company without cause or the participant terminates employment for good reason.) The occurrence of a particular Change in Control under the Plan shall have no effect on any award granted under the Plan after the date of that Change in Control.

(d) The Committee may make adjustments pursuant to Section 6(a) and/or deem an acceleration of vesting of awards pursuant to Section 6(b) to occur sufficiently prior to an event if necessary or deemed appropriate to permit the participant 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 an award if the related event does not actually occur.

(e) A “Change in Control” of the Company shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied after the date of the Spin-Off:

(i) Any Person (other than those Persons in control of the Company as of the Effective Time, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any affiliate of the Company or a successor) becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of either (1) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (2) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this clause (i); (A) “Person” or “group” shall not include underwriters acquiring newly-issued voting securities (or securities convertible into voting securities) directly from the Company with a view towards distribution, (B) creditors of the Company who become stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not, by virtue of such bankruptcy, be deemed a “group” or a single Person for the purposes of this clause (i) (provided that any one of such creditors may trigger a Change in Control pursuant to this clause (i) if such creditor’s ownership of Company securities equals or exceeds the foregoing threshold), and (C) an acquisition
shall not constitute a Change in Control if made by an entity pursuant to a transaction that is covered by and does not otherwise constitute a Change in Control under clause (iii) below;

(ii) On any day after the Effective Time (the “Measurement Date”) Continuing Directors cease for any reason to constitute either: (1) if the Company does not have a Parent, a majority of the Board; or (2) if the Company has a Parent, a majority of the Board of Directors of the Controlling Parent. A director is a “Continuing Director” if he or she either:

(1) was a member of the Board on the applicable Initial Date (an “Initial Director”); or

(2) was elected to the Board (or the Board of Directors of the Controlling Parent, as applicable), or was nominated for election by the Company’s or the Controlling Parent’s stockholders, by a vote of at least two-thirds (2/3) of the Initial Directors then in office.

A member of the Board (or Board of Directors of the Controlling Parent, as applicable) who was not a director on the applicable Initial Date shall be deemed to be an Initial Director for purposes of clause (2) above if his or her election, or nomination for election by the Company’s or the Controlling Parent’s stockholders, was approved by a vote of at least two-thirds (2/3) of the Initial Directors (including directors elected after the applicable Initial Date who are deemed to be Initial Directors by application of this provision) then in office. “Initial Date” means the later of (1) the Effective Time or (2) the date that is two (2) years before the Measurement Date.

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (1) all or substantially all of the individuals and entities that were the Beneficial Owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination Beneficially Own, directly or indirectly, more than sixty percent (60%) of the then-outstanding shares of common stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, is a Parent of the Company or the successor of the Company) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding any entity resulting from such Business Combination or a Parent of the Company or any successor of the Company or any employee benefit plan (or related trust) of the Company or such entity resulting from such Business Combination or a Parent of the Company or the successor entity) Beneficially Owns, directly or indirectly,
twenty-five percent (25%) or more of, respectively, the then-outstanding shares of common stock of the entity resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such entity, except to the extent that the ownership in excess of twenty-five percent (25%) existed prior to the Business Combination, and (3) a Change in Control is not triggered pursuant to clause (ii) above with respect to the Company (including any successor entity) or any Parent of the Company (or the successor entity).

(iv) A complete liquidation or dissolution of the Company other than in the context of a transaction that does not constitute a Change in Control of the Company under clause (iii) above.

Notwithstanding the foregoing, in no event shall the Spin-Off or a transaction or other event that occurred prior to the Effective Time constitute a Change in Control. Notwithstanding anything in clause (iii) above to the contrary, a change in ownership of the Company resulting from creditors of the Company becoming stockholders of the Company in connection with any bankruptcy of the Company under the laws of the United States shall not trigger a Change in Control pursuant to clause (iii) above.

“Beneficial Owner” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the 1934 Act. “Controlling Parent” means the Company’s Parent so long as a majority of the voting stock or voting power of that Parent is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. In the event that the Company has more than one “Parent,” then “Controlling Parent” means the Parent of the Company the majority of the voting stock or voting power of which is not Beneficially Owned, directly or indirectly through one or more subsidiaries, by any other Person. “Parent” means an entity that Beneficially Owns a majority of the voting stock or voting power of the Company, or all or substantially all of the Company’s assets, directly or indirectly through one or more subsidiaries. “Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the 1934 Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.

7. Fair Market Value

“Fair Market Value” for all purposes under the Plan shall mean the closing price of a share of Common Stock as reported by the New York Stock Exchange (the “Exchange”) for the date in question. If no sales of Common Stock were made on the Exchange on that date, the closing price of a share of Common Stock as reported by the Exchange for the preceding day on which sales of Common Stock were made on the Exchange shall be substituted.

8. Awards

The Committee shall determine the type or types of award(s) to be made to each participant. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for grants or rights under any other employee or compensation plan of the Company,
including the plan of any acquired entity. The types of awards that may be granted under the Plan are:

(a) Stock Options—A grant of a right to purchase a specified number of shares of Common Stock during a specified period as determined by the Committee. The purchase price per share for each option shall be not less than 100% of Fair Market Value on the date of grant, except that, in the case of a stock option granted retroactively in tandem with or as a substitution for another award, the exercise or designated price may be no lower than the Fair Market Value of a share on the date such other award was granted. A stock option may be in the form of an ISO which, in addition to being subject to applicable terms, conditions and limitations established by the Committee, complies with Section 422 of the Code. If an ISO is granted, the aggregate Fair Market Value (determined on the date the option is granted) of Common Stock subject to an ISO granted to a participant by the Committee which first becomes exercisable in any calendar year shall not exceed $100,000.00 (otherwise, the intended ISO, to the extent of such excess, shall be rendered a nonqualified stock option). ISOs may only be granted to key employees of the Company or a subsidiary. The maximum term of each option (ISO or nonqualified) shall be ten (10) years. The price at which shares of Common Stock may be purchased under a stock option shall be paid in full at the time of the exercise in cash or such other method permitted by the Committee, including (i) tendering (either actually or by attestation) Common Stock; (ii) surrendering a stock award valued at Fair Market Value on the date of surrender; (iii) authorizing a third party to sell the shares (or a sufficient portion thereof) acquired upon exercise of a stock option and assigning the delivery to the Company of a sufficient amount of the sale proceeds to pay for all the shares acquired through such exercise; or (iv) any combination of the above. The Committee may grant stock options that provide for the award of a new option when the exercise price of the option and/or tax withholding obligations related to the exercise of the option have been paid by tendering shares of Common Stock to the Company or by the Company’s reduction of the number of shares otherwise deliverable to the optionee. Any new option grant contemplated by the preceding sentence (the re-load grant) would cover the number of shares tendered by the optionee or withheld by the Company with the option purchase price set at the then current Fair Market Value and would never extend beyond the remaining term of the originally exercised option.

(b) SARs—A right to receive a payment, in cash and/or Common Stock, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable award agreement, except that, in the case of a SAR granted retroactively in tandem with or as a substitution for another award, the exercise or designated price may be no lower than the Fair Market Value of a share on the date such other award was granted. The maximum term of an SAR shall be ten (10) years.

(c) Other Awards—Other awards, granted or denominated in Common Stock or units of Common Stock, may be granted under the Plan. Awards not granted or denominated in Common Stock or units of Common Stock (cash awards) also may be granted consistent with clause (ii) below.

(i) All or part of any stock award may be subject to conditions and restrictions established by the Committee, and set forth in the award agreement, which
may include, but are not limited to, continuous service with the Company (or a subsidiary or affiliate), achievement of specific business objectives, and other measurements of individual, business unit or Company performance. Unless the Committee otherwise provides, awards under this Section 8(c) to employees of the Company or a subsidiary that are either granted or become vested, exercisable or payable based on attainment of one or more of the performance goals related to the business criteria identified below, shall be deemed to be intended as Performance-Based Awards under Section 8(c)(ii).

(ii) Without limiting the generality of the foregoing, and in addition to stock options and SAR grants, other performance-based awards within the meaning of Section 162(m) of the Code ("Performance-Based Awards"), whether in the form of restricted stock, performance stock, phantom stock or other rights, the vesting of which depends on the absolute or relative performance of the Company on a consolidated, segment, subsidiary, division, or plant basis with reference to revenue, net earnings (either before or after interest, taxes, depreciation, amortization and/or Net Pension Income (as defined below)), cash flow, free cash flow, return on equity or on assets or on investment (in each case which may, but need not, be on a net basis), cost containment or reduction, the total value of contracts awarded, stock price appreciation, total stockholder return, EVA (as defined below), or Pension Adjusted Operating Margin (as defined below) relative to preestablished performance goals, may be granted under the Plan. The applicable business criteria and the specific performance goals for Performance-Based Awards must be approved by the Committee in advance of applicable deadlines under the Code and while the performance relating to such goals remains substantially uncertain. The applicable performance period may range from one to ten years. Performance targets shall, to the extent determined by the Committee to be equitable and appropriate, be adjusted to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting charges or other extraordinary events not foreseen at the time the targets were set. In no event shall share-based Performance-Based Awards granted to any eligible person under this Plan exceed the limit set forth in Section 5(e). In no event shall grants to any eligible person under this Plan of Performance-Based Awards payable only in cash in any calendar year and not related to shares provide for payment of more than $_________. Except as otherwise permitted under Section 162(m) of the Code, before any Performance-Based Award is paid, the Committee must certify that the performance goal and any other material terms of the Performance-Based Award were in fact satisfied. The Committee shall have discretion to determine the conditions, restrictions or other limitations, in accordance with the terms of the Plan and Section 162(m) of the Code, on the payment of individual Performance-Based Awards. The Committee may reserve by express provision in any award agreement the right to reduce the amount payable in accordance with any standards or on any other basis (including the Committee’s discretion), as the Committee may impose. Performance-Based Awards may be granted only to key employees of the Company or a subsidiary. “EVA” means operating profit after tax (which means net earnings after tax but before tax adjusted interest income and expense and goodwill amortization), less a charge for the use of capital (which is based on average total capital and the weighted average cost of capital). “Net Pension Income” means any positive difference between income from employee pension plan investments less the cost of employee pension benefits for the relevant period of time. “Pension Adjusted Operating Margin” means operating margin adjusted
for the difference in pension cost between FAS (Financial Accounting Standards) and allowable and reimbursable pension costs under CAS (Cost Accounting Standards).

9. Dividends and Dividend Equivalents

The Committee may provide that any awards under the Plan earn dividends or dividend equivalents. Such dividends or dividend equivalents may be paid currently or may be credited to a participant’s account. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares or share equivalents.

10. Deferrals and Settlements

Payment of awards may be in the form of cash, Common Stock, other awards or combinations thereof as the Committee shall determine, and with such restrictions as it may impose. The Committee may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under the Plan. It may also provide that deferred settlements include the payment or crediting of interest on the deferral amounts, or the payment or crediting of dividend equivalents where the deferral amounts are denominated in shares.

11. Transferability and Exercisability

Unless otherwise expressly provided in (or pursuant to) this Section 11, by applicable law or by the award agreement, (i) all awards are non-transferable and shall not be subject in any manner to sale, transfer, anticipation, alienation, assignment, pledge, encumbrance or charge; (ii) awards shall be exercised only by the holder; and (iii) amounts payable or shares issuable pursuant to an award shall be delivered only to (or for the account of) the holder. The foregoing exercise and transfer restrictions shall not apply to: (a) transfers to the Company; (b) the designation of a beneficiary to receive benefits in the event of the participant’s death or, if the participant has died, transfers to or exercises by the participant’s beneficiary, or, in the absence of a validly designated beneficiary, transfers by will or the laws of descent and distribution; (c) transfers pursuant to a qualified domestic relations order (as defined in the Code) (in the case of ISOs, to the extent such transfers are permitted by the Code); (d) if the participant has suffered a disability, permitted transfers to or exercises on behalf of the holder by his or her legal representative; or (e) the authorization by the Committee of “cashless exercise” procedures. The Committee by express provision in the award or an amendment thereto may permit an award (other than an ISO) to be transferred to, exercised by and paid to certain persons or entities related to the participant, including but not limited to members of the participant’s family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the participant’s family and/or charitable institutions, or to such other persons or entities as may be expressly approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a “blind trust” in connection with the participant’s termination of employment or service with the Company (or a subsidiary or affiliate) to assume a
12. Award Agreements

Awards under the Plan shall be evidenced by agreements that set forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the participant’s employment or service terminates, and the Company’s authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind any award; provided, however, that such authority shall not extend to the reduction of the exercise price of a previously granted option, except as provided in Section 6 hereof. The Committee need not require the execution of any such agreement, in which case acceptance of the award by the respective participant shall constitute agreement to the terms of the award.

13. Plan Amendment

The Plan may only be amended by a majority of the Board of Directors as it deems necessary or appropriate to better achieve the purpose of the Plan, except that no such amendment shall be made without the approval of the Company’s stockholders which would increase the number of shares available for issuance under the Plan (except for increases or adjustments expressly contemplated by Sections 5 and 6).

14. Tax Withholding

The Company shall have the right to deduct from any settlement of an award made under the Plan, including the delivery or vesting of shares, a sufficient amount to cover withholding (at the flat percentage rates applicable to supplemental wages) of any Federal, state or local taxes required by law or to take such other action as may be necessary to satisfy any such withholding obligations. The Committee may permit shares to be used to satisfy required tax withholding and such shares shall be valued at the Fair Market Value as of the settlement date of the applicable award.

15. Other Company Benefit and Compensation Programs

Unless otherwise specifically determined by the Committee, settlements of awards received by participants under the Plan shall not be deemed a part of a participant’s regular, recurring compensation for purposes of calculating payments or benefits from any benefit plan or severance program of the Company (or a subsidiary or affiliate), or any severance pay law of any country. Further, the Company may adopt other compensation programs, plans or arrangements as it deems appropriate or necessary.

16. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such rights
(unless otherwise determined by the Committee) shall be no greater than the rights of an unsecured general creditor of the Company.

17. Future Rights

No person shall have any claim or rights to be granted an award under the Plan, and no participant shall have any rights under the Plan to be retained in the employ or service of the Company (or any subsidiary or affiliate).

18. Governing Law; Severability; Legal Compliance

The validity, construction and effect of the Plan, any award agreements or other documents setting forth the terms of an award, and any actions taken or relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable Federal law. If any provision of the Plan, any award agreement, or any other document setting forth the terms of an award shall be held by a court of competent jurisdiction to be invalid and unenforceable, the remaining provisions of the Plan or such other document shall continue in effect.

The Plan, the granting and vesting of awards under the Plan and the issuance and delivery of Common Stock and/or the payment of money under the Plan or under awards granted hereunder are subject to compliance with all applicable federal and state laws, rules and regulations (including but not limited to state and federal securities and banking laws) and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements.

The Plan and the awards granted under the Plan are intended to comply with (or be exempt from, as the case may be) Section 409A of the Code so as to avoid any tax, penalty or interest under Section 409A of the Code. The Plan shall be construed, operated and administered consistent with this intent.

19. Successors and Assigns

The Plan shall be binding on all successors and assigns of a participant, including, without limitation, the estate of such participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the participant’s creditors.

20. Rights as a Stockholder

Except as otherwise provided in the award agreement, a participant shall have no rights as a stockholder until he or she becomes the holder of record of shares of Common Stock.
THE 2011 INCENTIVE COMPENSATION PLAN OF HUNTINGTON INGALLS INDUSTRIES, INC.

SECTION I
PURPOSE

The purpose of this Plan is to promote the success of the Company and render its operations profitable to the maximum extent by providing for the Senior Executives of the Company incentives that continue to be dependent upon the overall successful performance of the Company. The Senior Executives, for this purpose, are only those elected corporate officers who participate in making the basic and strategic decisions which affect the corporate-wide performance of the Company, together with those Senior Executives who are in charge of significant operating subsidiaries. The Plan is designed to comply with the performance-based compensation exception under Section 162(m) of the Internal Revenue Code of 1986, as amended.

SECTION II
DEFINITIONS

1. CODE—The Internal Revenue Code of 1986, as amended from time to time.

2. COMMITTEE—The Compensation Committee of the Board of Directors of Huntington Ingalls Industries, Inc. It shall be composed of not less than three members of the Board of Directors, no one of whom shall be an officer or employee of the Company and it shall be constituted so as to permit this Plan to comply with the “outside director” requirement of Code section 162(m).

3. COMPANY—Huntington Ingalls Industries, Inc. and such of its subsidiaries as are consolidated in its consolidated financial statements.

4. INCENTIVE COMPENSATION—Awards payable under this Plan.

5. PERFORMANCE CRITERIA—Economic Earnings, and for purposes of this Plan, “Economic Earnings” shall mean 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.

6. PERFORMANCE YEAR—The Year with respect to which an award of Incentive Compensation is calculated and paid.

7. PLAN—This 2011 Incentive Compensation Plan of Huntington Ingalls Industries, Inc.

8. SECTION 162(m) OFFICER—A Participant who is a “covered employee” as defined in Section 162(m) of the Code with respect to an award of Incentive Compensation under the Plan for a Performance Year.
9. YEAR—The fiscal year of Huntington Ingalls Industries, Inc.

SECTION III
PARTICIPATION

1. The persons eligible to receive Incentive Compensation awards under this Plan are elected corporate officers of the rank of Vice President and above and the Presidents of those consolidated subsidiaries that the Committee determines to be significant in the overall corporate operations who are Section 162(m) Officers.

2. “Participant” is a person granted or eligible to receive an Incentive Compensation award under this Plan.

3. Directors, as such, shall not participate in this Plan, but the fact that an elected corporate officer or subsidiary President is also a Director shall not prevent his participation.

4. The death of a Participant shall not disqualify him for an Incentive Compensation award for the Performance Year in which he dies or the preceding Performance Year. In the case of a deceased Participant, the Incentive Compensation, if any, determined for him for the Performance Year by the Committee shall be paid to his spouse, children, or legal representatives as directed by the Committee.

SECTION IV
INCENTIVE COMPENSATION APPROPRIATIONS AND AWARDS

1. The amount to be appropriated to the Plan with respect to a Performance Year shall equal two and one-half percent (2.5%) of the Performance Criteria for such Performance Year. The amount appropriated to the Plan for a Performance Year based on the Performance Criteria set forth in this Paragraph 1, SECTION IV shall be referred to as the “Tentative Appropriated Incentive Compensation” for such Performance Year.

2. The amount of the Tentative Appropriated Incentive Compensation for a Performance Year may be reduced (but not increased) by the Committee, in its sole discretion, after taking into account an appraisal of individual and overall Company performance in the attainment of such predetermined financial and non-financial objectives as are selected by the Committee and set forth in writing within the first 90 days of a Performance Year, at a time when it is substantially uncertain whether a Participant will earn any amount of Incentive Compensation. The amount appropriated to the Plan for a Performance Year by the Committee under this Paragraph 2, SECTION IV shall be referred to herein as the “Appropriated Incentive Compensation” for such Performance Year. In no event shall Incentive Compensation payable to Participants for a Performance Year exceed the Appropriated Incentive Compensation under the Plan for such Performance Year. Any Tentative Appropriated Incentive Compensation for a Performance Year, which is not actually appropriated to the Plan for such Year, shall be forfeited.
3. Incentive Compensation Awards to Section 162(m) Officer:

(a) Notwithstanding any other provisions of this Plan, any Incentive Compensation award for a Performance Year under this Plan payable to a Section 162(m) Officer must satisfy the requirements of this Paragraph 3, SECTION IV. The purpose of this Paragraph 3 is to ensure compliance by the Plan with the requirements of Section 162(m) of the Code relating to performance-based compensation. To the extent necessary to ensure that Incentive Compensation awards comply with the requirements of Section 162(m) of the Code relating to performance based compensation, Incentive Compensation awards to Section 162(m) Officers under this Plan are subject to:

(i) Approval of this Plan and the criteria stated in Paragraph 3(b) of this SECTION IV by the shareholders of Huntington Ingalls Industries, Inc. following the Company’s spin-off from Northrop Grumman Corporation no later than the first regularly scheduled meeting of the shareholders that occurs more than twelve (12) months after the Company’s spin off from Northrop Grumman Corporation;

(ii) The maximum amount that may be awarded to any Section 162(m) Officer under the Plan for any Performance Year as stated in Paragraph 3(b) of this SECTION IV; and

(iii) Approval of this Plan by the Committee following the Company’s spin-off from Northrop Grumman Corporation and at or prior to the time any Incentive Compensation awards are made to any Section 162(m) Officers.

(b) The maximum potential amount of Appropriated Incentive Compensation (as defined in Paragraph 2 of this SECTION IV) payable to any Participant as an Incentive Compensation award for any single Performance Year shall be limited to no more than thirty percent (30%) for the CEO and seventeen and one-half percent (17.5%) for each of the other up to four (4) Participants for such Performance Year.

(c) The Performance Criteria established in Paragraph 5 of SECTION II on which Incentive Compensation awards under the Plan are based shall first apply in the Performance Year 2011.

(d) Prior to the payment of any Incentive Compensation awards for a Performance Year, the Committee shall make a determination and certification in writing as to whether the Section 162(m) Officers have met the Performance Criteria, performance goals, and any other material terms of the Plan for each Performance Year. The Committee may, in its sole discretion, exercise negative discretion by reducing amounts of Incentive Compensation awards to all or any of the Section 162(m) Officers from the maximum potential awards payable by application of Paragraph 3(b) of this Plan.
SECTION IV. No such reduction shall increase the amount of the maximum award payable to any other Section 162(m) Officer. The Committee shall determine the amount of any reduction in a Section 162(m) Officer’s Incentive Compensation award on the basis of such factors as it deems relevant, and it shall not be required to establish any allocation or weighting component with respect to the factors it considers. The Committee shall have no discretion to increase any Incentive Compensation award for a Performance Year above the amount determined by application of Paragraph 3(b) of this SECTION IV.

4. After the end of a Performance Year, in determining each Participant’s Incentive Compensation award for such Year, the Committee may make a downward adjustment after considering such factors as it deems relevant, which shall include but not be limited to the following factors:

(a) The evaluation of the Participant’s performance during that Performance Year in relation to the Participant’s predetermined objectives and the Participant’s contribution during such Year to the success or profit of the Company.

(b) The classification of the Participant’s position, relative to the position of all Participants. The Committee shall make the final determination of each Participant’s Incentive Compensation award for a Performance Year.

SECTION V
ADMINISTRATION OF THE PLAN

The Committee shall be responsible for the administration of the Plan. The Committee shall:

1. Interpret the Plan, make any rules and regulations relating to the Plan, determine which consolidated subsidiaries are significant for the purpose of the first paragraph of SECTION III, and determine factual questions arising in connection with the Plan, after such investigation or hearing as the Committee may deem appropriate.

2. As soon as practicable after the close of each Performance Year and prior to the payment of any Incentive Compensation for such Performance Year, review the performance of each Participant and determine the amount of each Participant’s individual Incentive Compensation award, if any, with respect to that Performance Year.

3. Have sole discretion in determining Incentive Compensation awards under the Plan, except that in making awards the Committee may, in its discretion, request and consider the recommendations of the Chief Executive Officer of the Company and others whom it may designate.

Any decisions made by the Committee under the provisions of this SECTION V shall be conclusive and binding on all parties concerned. Except as otherwise specifically provided in this Plan, the provisions of this Plan shall be interpreted and administered by the Committee in a
SECTION VI
METHOD OF PAYMENT OF INCENTIVE COMPENSATION TO INDIVIDUALS

1. The amount of Incentive Compensation award determined for each Participant with respect to a given Performance Year shall be paid in cash or in common stock of Huntington Ingalls Industries, Inc. (“HII Common Stock”) or partly in cash and partly in HII Common Stock, as the Committee may determine. Subject to any applicable deferred compensation election to the contrary, payment of an Incentive Compensation award, in cash or in HII Common Stock, with respect to a given Performance Year shall be made in a lump sum between February 15 and March 15 of the year following such Performance Year.

2. The Committee may impose such conditions, including forfeitures and restrictions, as the Committee believes will best serve the interests of the Company and the purposes of the Plan.

3. In making awards of HII Common Stock, the Committee shall first determine all Incentive Compensation awards in terms of dollars. The total dollar amount of all Incentive Compensation awards for a particular Performance Year shall not exceed the Appropriated Incentive Compensation for that Performance Year under this Plan. In the case of Section 162(m) Officers, the total dollar amount of an Incentive Compensation award for a particular Performance Year shall be no greater than the maximum potential awards payable by application of Paragraph 3(b) of SECTION IV. After fixing the total amount of each Participant’s Incentive Compensation award in terms of dollars, then if some or all of the award is to be paid in HII Common Stock, the dollar amount of the Incentive Compensation award so to be paid shall be converted into shares of HII Common Stock by using the fair market value of such stock on the date such dollar amount was fixed. “Fair market value” shall be the closing price of such stock on the New York Stock Exchange on the applicable date, or, if no sales of such stock occurred on that date, then on the last preceding date on which such sales occurred. No fractional share shall be issued.

4. If an Incentive Compensation award is paid in HII Common Stock, the number of shares shall be appropriately adjusted for any stock splits, stock dividends, recapitalizations or other relevant changes in capitalization effective after the date the applicable number of shares is determined and prior to the date as of which the Participant becomes the record owner of the shares received in payment of the award. All such adjustments thereafter shall accrue to the Participant as the record owner of the shares.

5. HII Common Stock issued in payment of Incentive Compensation awards may, at the option of the Board of Directors, be either originally issued shares or treasury shares, and any such shares so issued shall count against the applicable limits of the Company’s 2011
Long-Term Incentive Stock Plan or any successor equity compensation plan of the Company, as the case may be.

6. Distribution of awards shall be governed by the terms and conditions applicable to such awards, as determined by the Committee or its delegate. An award, the payment of which is to be deferred pursuant to the terms of an employment agreement, shall be paid as provided by the terms of such agreement. Awards or portions thereof deferred pursuant to the [Huntington Ingalls Industries, Inc. Deferred Compensation Plan], the [Huntington Ingalls Industries, Inc. Savings Excess Plan], or any other deferred compensation plan or deferral arrangement shall be paid as provided in such plan or arrangement.

7. The Company shall have the right to deduct from all payments under this Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.

8. No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interest whatsoever in any specific asset of the Company. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.

9. The Committee shall have the exclusive right to interpret the provisions of this SECTION VI, to determine all questions arising under it or in connection with its administration, and to issue regulations and take actions implementing its provisions.

SECTION VII
AMENDMENT OR TERMINATION OF PLAN

The Board of Directors of the Company shall have the right to terminate or amend this Plan at any time and to discontinue further appropriations thereto, except that no amendment to the Plan shall be made without the approval of the shareholders of Huntington Ingalls Industries, Inc. if shareholder approval is required to preserve the exemption of Incentive Compensation awards granted to Participants who are Section 162(m) Officers as “performance-based compensation” under Code Section 162(m).

SECTION VIII
EFFECTIVE DATE

This Plan was first effective for Performance Years commencing in 2011. No appropriations will be made, and no Incentive Compensation shall be paid, under the Plan for subsequent Performance Years if the Plan is not approved by the shareholders of Huntington Ingalls Industries, Inc. in accordance with Paragraph 3(a) of SECTION IV.

SECTION IX
RECOUPMENT

Any payment of an Incentive Compensation award is 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, and the Participant shall promptly make any reimbursement requested by the Board of Directors of the Company or the Committee pursuant to such policy with respect to any Incentive Compensation award payments. Further, the Participant agrees, by accepting an Incentive Compensation award, that the Company and its affiliates may deduct from any amounts it may owe the Participant from time to time (such as wages or other compensation) to the extent of any amounts the Participant is required to reimburse the Company pursuant to such policy with respect to the award.

SECTION X
MISCELLANEOUS

1. Participation in the Plan shall not constitute an agreement (1) of the Participant to remain in the employ of and to render his/her services to the Company, or (2) of the Company to continue to employ such Participant, and the Company may terminate the employment of a Participant at any time with or without cause.

2. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

3. All costs of implementing and administering the Plan shall be borne by the Company.

4. All obligations of the Company under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

5. The Plan, and any agreements hereunder, shall be governed by and construed in accordance with the state of Delaware.

6. This Plan and the Incentive Compensation awards under the Plan are intended to comply with (or be exempt from, as the case may be) Section 409A of the Code so as to avoid any tax, penalty or interest under Section 409A of the Code. This Plan shall be construed, operated and administered consistent with this intent.
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 shares of Northrop Grumman common stock outstanding as of , on , 20 , 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 , 20 . 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 19 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 , 20 .

This Information Statement was first mailed to Northrop Grumman stockholders on or about , 20 .
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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 19 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 its consolidated subsidiaries. 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 15.

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 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

• 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

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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 the surface ships of, 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 September 30, 2010 was approximately $17 billion. At the end of 2009, total orders from the U.S. Government composed 99% 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 66% of our revenues in 2008 and 2009.

- 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 almost 40,000 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 June 1, 2010, we had 891 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 ..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 , 20 , 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, before the spin-off, we will (i) incur debt in an amount estimated at $ from third parties (the “HII Debt”), the proceeds of which are expected to fund a cash transfer of approximately $ (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 $ , and (ii) enter into a credit facility with third-party lenders in an amount estimated at $ (the “HII Credit Facility”).

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
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 share 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, cyber-security 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: On October 15, 2010, Northrop Grumman announced that it was continuing to explore strategic alternatives, including a spin-off or a sale, for its shipbuilding business. 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 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 , 20 , 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 information on the shares being distributed in the spin-off, see “Description of Our Capital Stock—Common Stock.”

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 such awards will be modified appropriately to reflect the spinoff.

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 shares of Northrop Grumman common stock held in each 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 when directed by participants, and any such shares remaining as of , 20 [one year from the distribution date] will be automatically disposed of and the proceeds invested in another such investment alternative (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). In addition, current and former Northrop Grumman employees who hold Northrop Grumman stock under the Northrop Grumman stock fund in their Northrop Grumman 401(k) Plan account as of the record date for the distribution will, like all stockholders, receive one share of HII common stock in the distribution, based on the distribution ratio, for every shares of Northrop Grumman common stock held in the employee’s Northrop Grumman stock fund account. HII 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 HII 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 when directed by participants, and any such shares remaining as of , 20 [one year from the distribution date] will be automatically disposed of and the proceeds invested in another such investment alternative (but this will not prohibit diversified, collectively managed investment alternatives available under the Northrop Grumman 401(k) Plan from holding HII common stock or prohibit employees who use self-directed accounts in the Northrop Grumman 401(k) Plan from investing their accounts in HII 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 , 20 .

Q: When will the distribution occur?
A: The distribution date of the spin-off is , 20 . 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 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
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 a ruling (“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 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 also will 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 $ of the proceeds of the HII Debt to NGSC.

Q: What indebtedness will HII have following the spin-off?
A: It is anticipated that, prior to the completion of the spin-off, HII will (i) incur the HII Debt in an amount estimated at $ , the proceeds of which are expected to be used to fund the $ Contribution and for general corporate purposes in the amount of $ and (ii) enter into the HII Credit Facility in an amount estimated at $. 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 NGSC 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 4.55% Gulf Opportunity Zone Industrial Revenue Bonds (Northrop Grumman Ship Systems, Inc. Project) Series 2006 due 2028 (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 spin-off, Northrop Grumman Shipbuilding, Inc (“NGSB”) on November 1,
2010, launched a tender offer to purchase any and all GO Zone IRBs at par. As a result, NGSB purchased $178.4 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 be the relationship 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 be 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.

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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 19.

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. At present there are several contracts in the negotiation phase that may not be finalized and awarded until after the spin-off is concluded and the U.S. Navy makes a responsibility determination. This could cause the contracts to be delayed or not awarded. We believe we continue to be a responsible contractor. Nonetheless, if 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 business, financial condition or results of operations. 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:

Phone:

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
Phone:
www. .com
The diagram below shows the current structure of Northrop Grumman:

The diagram below shows the structure of Northrop Grumman after completion of the internal reorganization:

The diagram below shows the structure of Northrop Grumman and HII immediately after completion of the spin-off:

- 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 reorganization.
- “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.
Summary of the Spin-Off

Distributing Company
Northrop Grumman Corporation, a Delaware corporation. After the distribution, Northrop Grumman will not own any shares of HII common stock.

Distributed Company
Huntington Ingalls Industries, Inc., a Delaware corporation and a wholly owned subsidiary of Northrop Grumman. After the spin-off, HII will be an independent, publicly owned company.

Distributed Securities
All of the shares of HII common stock owned by Northrop Grumman which will be 100% of HII common stock issued and outstanding immediately prior to the distribution.

Record Date
The record date for the distribution is the close of business on , 20 .

Distribution Date
The distribution date is , 20 .

Internal Reorganization
As part of the spin-off, Northrop Grumman will undergo an internal reorganization, which we refer to as the “internal reorganization,” that will, among other things, result in:

- New 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 HII.
- New NGC changing its name to “Northrop Grumman Corporation.”
- HII becoming the parent company of the Northrop Grumman subsidiaries that currently operate the shipbuilding business.
- Current NGC becoming a direct, wholly owned subsidiary of HII and being renamed “Titan II Inc.”

After completion of the spin-off:

- New NGC will own and operate the aerospace systems, electronic systems, information systems and technical services businesses.
- HII will be an independent, publicly owned company, will own and operate the shipbuilding business and will own all of the stock of Current NGC.

For more information, see the description of this internal reorganization in “The Spin-Off—Manner of Effecting the Spin-Off—Internal Reorganization.”

Incurrence of Debt
It is anticipated that, prior to completion of the spin-off, HII will (i) incur the HII Debt to fund the Contribution and for general corporate purposes and (ii) enter into the HII Credit Facility.

Distribution Ratio
Each holder of Northrop Grumman common stock will receive one share of HII common stock for every shares of Northrop Grumman common stock held on , 20 .

The Distribution
On the distribution date, Northrop Grumman will release the shares of HII common stock to the distribution agent to distribute to Northrop Grumman stockholders. The distribution of shares will be made in book-entry form, which means that no physical share certificates will be issued. It is expected that it will take the distribution agent up to two 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.
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 it
is not advisable for HII to separate from Northrop Grumman. For more information, see “The Spin-Off—Conditions
to the Spin-Off.”

Trading Market and Symbol

We intend to file 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

As a condition to the spin-off, Northrop Grumman has received an 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.

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### 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

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### 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 19 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, 2009, 2008 and 2007 is derived from NGSB’s audited consolidated financial statements included elsewhere in this information statement. The condensed consolidated financial data for the nine months ended September 30, 2010 and September 30, 2009 is derived from NGSB’s unaudited condensed consolidated financial statements that are included elsewhere in this information statement. The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited condensed financial statements and, in the opinion of our management, include all adjustments necessary for a fair presentation of the information set forth herein.

The summary unaudited pro forma condensed consolidated financial data for the nine months ended September 30, 2010 and the year ended December 31, 2009 have been prepared to reflect the spin-off, including: (i) the purchase of $178.4 million of GO Zone IRBs in a tender offer by NGSB, (ii) the distribution of HII common stock by Northrop Grumman to its stockholders; and (iii) the incurrence of $ of the HII Debt by HII prior to completion of the spin-off and the making of the Contribution. The unaudited pro forma condensed consolidated statement of income data presented for the nine months ended September 30, 2010 and the year ended December 31, 2009 assumes the spin-off occurred on January 1, 2009, the first day of fiscal year 2009. The unaudited pro forma condensed consolidated balance sheet data assumes the spin-off occurred on September 30, 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.

<table>
<thead>
<tr>
<th></th>
<th>Pro Forma (Nine months) ended September 30</th>
<th>Pro Forma (Year ended) December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and service revenues</td>
<td>$4,987</td>
<td>$4,610</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>$144</td>
<td>$146</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>$72</td>
<td>$81</td>
</tr>
<tr>
<td>Total assets</td>
<td>$5,185</td>
<td>$5,001</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$283</td>
<td>$283</td>
</tr>
<tr>
<td>Total long-term obligations</td>
<td>$1,694</td>
<td>$1,632</td>
</tr>
<tr>
<td>Free cash flow(1)</td>
<td>$5</td>
<td>$(329)</td>
</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>
</tr>
</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, is constructing a production facility adjacent to the Newport News shipyard for the manufacture of heavy commercial nuclear power plant components, which is expected to be completed within the next four years.</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>
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<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>
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<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-</td>
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<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 staterooms, 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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<tr>
<td>LPD-17 San Antonio-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 San Antonio-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 San Antonio, 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. 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.</td>
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<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. Long lead time and material procurement is underway for NSC-4 <em>Hamilton</em>.</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 midpoint 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>.</td>
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<tr>
<td>SSBN(X) <em>Ohio</em>-class Submarine Replacement Program</td>
<td>Act, through an agreement with Electric Boat, as design subcontractor for the <em>Ohio</em>-class replacement boats. The U.S. Navy has committed to designing a replacement class for the aging <em>Ohio</em>-class nuclear ballistic submarines, which were first introduced into service in 1981. The SSBN(X) <em>Ohio</em>-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 <em>Ohio</em>-class includes 14 ballistic missile submarines (SSBN) and four cruise missile submarines (SSGN). The <em>Ohio</em>-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 <em>Ohio</em>-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 Navy or the amount of funding made available by Congress for the SSBN(X) <em>Ohio</em>-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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<td>SSN-774 <em>Virginia</em>-class fast attack submarines</td>
<td>Construct the newest attack submarine as the principal subcontractor to Electric Boat. The SSN-774 <em>Virginia</em>-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 <em>Virginia</em>-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 <em>Virginia</em>-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 <em>Virginia</em>-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.</td>
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<td>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 <em>Virginia</em>-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 <em>Virginia</em>-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 business, financial condition or results of operations.*

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. Approximately 99% of our revenues during 2009 were derived from products and services ultimately sold to the U.S. Government. In addition, more than 99% of our backlog was U.S. Government-related as of December 31, 2009. 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 extend over several fiscal years. Consequently, programs are occasionally only 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. 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 business, financial condition or results of operations.

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 business, financial condition or results of operations.

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 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 that did not fully account for the extent of Katrina disruption on the Gulf Coast shipyards and workforce, 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 business, financial condition or results of operations.

Our principal U.S. Government business is currently being performed under firm fixed price (“FFP”), fixed price incentive (“FPI”), cost plus incentive fee (“CPIF”) and cost plus fixed fee (“CPFF”) contracts. The risk to us of not being reimbursed for 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 both CPIF and CPFF 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. In 2009, approximately 60% of Newport News’ revenues were cost plus incentive fee, which primarily included aircraft carrier construction and RCOH. Twenty-nine percent of Newport News’ 2009 revenues were fixed price incentive contracts, mainly consisting of submarine construction, while 10% of revenues were cost plus fixed fee contracts. Approximately 67% of the Gulf Coast’s revenues were fixed price incentive, 27% were cost plus incentive fee and 4% were firm fixed price.

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 our 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 business, financial condition or results of operations.

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 business, financial condition or results of operations.

### 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 business, financial condition or results of operations.

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, 2009 and for the first nine months of 2010, aircraft carrier construction accounted for approximately 10 and 13% of our consolidated revenues, respectively. 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 business, financial condition or results of operations.

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 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 business, results of operations and financial condition.

The Department of Defense has announced plans for significant changes to its business practices that could have a material effect on our overall procurement process and adversely impact our current programs and potential new awards.

Recently, the DoD has 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 new initiatives are expected to impact significantly the contracting environment in which we do business with our DoD customers. Depending on how they are implemented, they could have a significant 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 business, financial condition, results of operations 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 business, financial condition or results of operations.

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 285 ships in 2009, 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 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, 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 business, financial conditions or results of operations. 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 business, financial condition or results of operations.

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.

We cannot make assurances that potential undiscovered issues would not have a material adverse effect on our business, financial condition or results of operations 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 business, financial condition and results of operations. 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. We recognized a $113 million pre-tax charge to second quarter 2010 operating income for these contracts.

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. A formal audit of the restructuring proposal by the Defense Contract Audit Agency ("DCAA") is in process and must be completed before this matter can be resolved. Should these costs be challenged by the U.S. Navy, it could create uncertainty as to the timing 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 business, financial condition or results of operations.

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 business, financial condition and results of operations.

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 business, financial condition or results of operations. 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 business, financial condition or results of operations. 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 business, financial condition or results of operations.

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. In November 2007, FM Global filed a notice of appeal of the District Court’s order. 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. 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 if it so chooses. 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 intend to continue to pursue the breach of contract litigation against FM Global and will consider whether to bring a separate action against Aon in state court. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of this matter.

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. Northrop Grumman was subsequently notified that Munich Re also will seek 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. 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. Any payments to be made to NGRMI in connection with this matter would be for the benefit of our accounts, and payments to be made to Munich Re, if any, would be made by us.

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 business, financial condition or results of operations, 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 business, financial condition or results of operations. 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 business, financial condition or results of operations.**

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 business, financial condition or results of operations.

On June 4, 2010, the EPA proposed new regulations at 40 CFR Part 63 Subpart DDDDD 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 business, financial condition, 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, business, financial condition or results of operations.
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 business, financial condition or results of operations.

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; and
- potential liabilities arising out of a nuclear incident whether or not it is within our control.

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. Revised security and safety requirements promulgated by these agencies 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 business, financial condition or results of operations.

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 business, financial condition or results of operations.

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
The 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, 2009, the estimated value of our uncertain tax positions was a potential liability of $26 million, which includes accrued interest of $5 million. As of September 2010, the estimated value of our uncertain tax positions was a potential liability of $16 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 consolidated financial position, results of operation or cash flows. Any claims and litigation, even if fully indemnified or insured, could have a material adverse effect on 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.

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 the relator’s hull, mechanical and engineering allegations and continued the trial date to December 1, 2010, to allow the relator and a co-defendant time to finalize a settlement. If the settlement with the co-defendant becomes final, we expect the case against us will be concluded with the exception of a possible appeal of the District Court’s orders dismissing the allegations against us. Should the settlement not be concluded, we will file a motion to be excluded from the December 1, 2010 trial. We 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. 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 business, financial condition or results of operations.

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 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 face the following risks in connection with 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 expect to incur new indebtedness upon consummation of 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 business, financial condition or results of operations.

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. Upon completion of the spin-off, we expect to have $ of HII Indebtedness, $ of the proceeds of which will be transferred to NGSC, a wholly owned subsidiary of Northrop Grumman, in the Contribution prior to the spin-off. Prior to the spin-off, we also expect to enter into the HII Credit Facility in an amount estimated at $ . 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 and (iii) debt that we expect to incur from an unrelated party or group of parties, the net proceeds of which 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 an 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 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 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 business, financial condition, 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 entering into new contracts 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. At present there are several contracts in the negotiation phase that may not be finalized and awarded until after the spin-off is concluded and the U.S. Navy makes a responsibility determination. This could cause the contracts to be delayed or not awarded. We believe we continue to be a responsible contractor. Nonetheless, if 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 business, financial condition or results of operations.

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 solvent 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;
announcement 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;
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 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 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 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.
SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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 business. Any such risks could cause our results to differ materially from those expressed in forward-looking statements.
THE SPIN-OFF

Background

On , 20 , 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 , 20 . Each holder of Northrop Grumman common stock will receive one share of our common stock for every shares of Northrop Grumman common stock held on , 20 , 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.

**Internal Reorganization**

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:

The diagram below shows the current structure of Northrop Grumman:

The diagram below shows the structure of Northrop Grumman after completion of the internal reorganization:

**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 , 20 , 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 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 , 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.
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 business, financial condition, 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 business, financial condition, 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 holders of shares of our common stock and approximately shares of our common stock outstanding, based on the number of stockholders and outstanding shares of Northrop Grumman common stock on . 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 , 20 will have their accounts transferred to the HII 401(k) Plan, as of , 20, 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 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 when directed by participants, and any such shares remaining as of , 20 [one year from the distribution date] will be automatically disposed of and the proceeds invested in another such investment alternative (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 when directed by participants, and any such shares remaining as of , 20 [one year from the distribution date] will be automatically disposed of and the proceeds invested in another such investment alternative (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 and make the Contribution and (ii) enter into the HII Credit Facility, 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 , 20 , 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 our 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 sell shares of Northrop Grumman common stock in the regular-way market up to and including the distribution date, you will be selling your right to receive shares of our common stock in the distribution. However, 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

On , 20 , Northrop Grumman had shares of its common stock issued and outstanding. Based on this number, we expect that upon completion of the spin-off, we will have shares of common stock issued and outstanding. 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 distribution date, we estimate that our directors and officers will beneficially own 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 September 30, 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 September 30, 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>September 30, 2010</th>
<th>Historical</th>
<th>Adjustments for Tender</th>
<th>Adjustments for Financing</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents (1)</td>
<td>$ —</td>
<td>$ —</td>
<td>$ —</td>
<td>$ —</td>
</tr>
<tr>
<td>Debt, including current and long-term</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>$ 283</td>
<td>$ —</td>
<td>$ —</td>
<td>$ 283</td>
</tr>
<tr>
<td>Notes payable to parent</td>
<td>537</td>
<td>537</td>
<td>537</td>
<td>537</td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td>232</td>
<td>232</td>
<td>232</td>
<td>232</td>
</tr>
<tr>
<td>Total debt</td>
<td>1,052</td>
<td>1,052</td>
<td>1,052</td>
<td>1,052</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td>1,985</td>
<td>1,985</td>
<td>1,985</td>
<td>1,985</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(498)</td>
<td>(498)</td>
<td>(498)</td>
<td>(498)</td>
</tr>
<tr>
<td>Common stock (par value $1.00)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Additional paid in capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>1,487</td>
<td>1,487</td>
<td>1,487</td>
<td>1,487</td>
</tr>
<tr>
<td>Total Capitalization</td>
<td>$ 2,539</td>
<td>$ —</td>
<td>$ —</td>
<td>$ 2,539</td>
</tr>
</tbody>
</table>

(1) 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 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, 2009, 2008 and 2007 is derived from NGSB’s audited consolidated financial statements included elsewhere in this information statement. The condensed consolidated financial data for the nine months ended September 30, 2010 and 2009 is derived from NGSB’s unaudited condensed consolidated financial statements included elsewhere in this information statement. The condensed consolidated financial data as of and for the years ended December 31, 2006 and 2005 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>(Nine months ended)</th>
<th></th>
<th>(Year ended)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 30</td>
<td>December 31</td>
<td></td>
<td>December 31</td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$4,987</td>
<td>$4,610</td>
<td>$6,292</td>
<td>$6,189</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>144</td>
<td>146</td>
<td>211</td>
<td>(2,354)</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>72</td>
<td>81</td>
<td>124</td>
<td>(2,420)</td>
</tr>
<tr>
<td>Total assets</td>
<td>5,185</td>
<td>5,001</td>
<td>4,760</td>
<td>7,658</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>283</td>
<td>283</td>
<td>283</td>
<td>283</td>
</tr>
<tr>
<td>Total long-term obligations</td>
<td>1,694</td>
<td>1,632</td>
<td>1,761</td>
<td>1,790</td>
</tr>
<tr>
<td>Free cash flow (1)</td>
<td>55</td>
<td>(329)</td>
<td>(269)</td>
<td>121</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.

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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, 2009 and the nine months ended September 30, 2010. NGSB’s condensed consolidated financial data for the year ended December 31, 2009 is derived from NGSB’s audited consolidated financial statements included elsewhere in this information statement. NGSB’s condensed consolidated financial data for the nine months ended September 30, 2010 is derived from NGSB’s unaudited condensed consolidated financial statements included elsewhere in this information statement. NGSB’s unaudited condensed consolidated financial statements have been prepared on the same basis as its 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 unaudited pro forma condensed consolidated financial data for the nine months ended September 30, 2010 and the year ended December 31, 2009 have been prepared to reflect the spin-off, including: (i) the purchase of $178.4 million of GO Zone IRBs in a tender offer by NGSB, (ii) the distribution of HII common stock by Northrop Grumman to its stockholders; and (iii) the incurrence of $ of the HII Debt by HII and the making of the $ Contribution, prior to completion of the spin-off. 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 income data presented for the nine months ended September 30, 2010 and the year ended December 31, 2009 assumes the spin-off occurred on January 1, 2009, the first day of fiscal year 2009. The unaudited pro forma condensed consolidated balance sheet data assumes the spin-off occurred on September 30, 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 Income Statement

**Year ended December 31, 2009**

<table>
<thead>
<tr>
<th>Statement of Operations</th>
<th>Historical</th>
<th>Adjustments for Tender</th>
<th>Adjustments for Financing</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and service revenues</strong></td>
<td>$6,292</td>
<td>$</td>
<td>$</td>
<td>$6,292</td>
</tr>
<tr>
<td><strong>Cost of sales and service revenues</strong></td>
<td>6,081</td>
<td></td>
<td></td>
<td>6,081</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>211</td>
<td></td>
<td></td>
<td>211</td>
</tr>
<tr>
<td><strong>Other (expense) income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(36)</td>
<td></td>
<td>(36)</td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>1</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td><strong>Earnings before income taxes</strong></td>
<td>176</td>
<td></td>
<td></td>
<td>176</td>
</tr>
<tr>
<td><strong>Federal income taxes</strong></td>
<td>52</td>
<td></td>
<td></td>
<td>52</td>
</tr>
<tr>
<td><strong>Net earnings</strong></td>
<td>$124</td>
<td>$</td>
<td>$</td>
<td>$124</td>
</tr>
<tr>
<td><strong>Other comprehensive income, net of tax</strong></td>
<td>86</td>
<td></td>
<td></td>
<td>86</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td>$210</td>
<td>$</td>
<td>$</td>
<td>$210</td>
</tr>
</tbody>
</table>

*See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.*
## HII

### Unaudited Pro Forma Condensed Consolidated Income Statement

**Nine months ended September 30, 2010**

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Historical</th>
<th>Adjustments for Tender</th>
<th>Adjustments for Financing</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statement of Operations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$4,987</td>
<td>$</td>
<td>$</td>
<td>$4,987</td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td>4,843</td>
<td>4,843</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>144</td>
<td>144</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (expense) income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(30)</td>
<td>(30)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other, net</td>
<td>—</td>
<td>—</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings before income taxes</td>
<td>114</td>
<td>114</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>42</td>
<td>42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net earnings</td>
<td>$72</td>
<td>$</td>
<td>$</td>
<td>$72</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>33</td>
<td>33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$105</td>
<td>$</td>
<td>$</td>
<td>$105</td>
</tr>
</tbody>
</table>

*See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.*
## HII

Unaudited Pro Forma Condensed Consolidated Balance Sheet

### September 30, 2010

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>Historical</th>
<th>Adjustments for Tender</th>
<th>Adjustments for Financing</th>
<th>Pro Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance Sheet Data:</strong></td>
<td></td>
<td></td>
<td></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>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>—</td>
<td>—</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>755</td>
<td></td>
<td>755</td>
<td></td>
</tr>
<tr>
<td>Inventoried costs, net</td>
<td>295</td>
<td></td>
<td>295</td>
<td></td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>293</td>
<td></td>
<td>293</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>22</td>
<td></td>
<td>22</td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,365</td>
<td></td>
<td>1,365</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>1,929</td>
<td></td>
<td>1,929</td>
<td></td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>1,134</td>
<td></td>
<td>1,134</td>
<td></td>
</tr>
<tr>
<td>Other purchased intangibles, net</td>
<td>591</td>
<td></td>
<td>591</td>
<td></td>
</tr>
<tr>
<td>Pension plan asset</td>
<td>110</td>
<td></td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous other assets</td>
<td>56</td>
<td>$ (2) [A]</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td>1,891</td>
<td>(2)</td>
<td>1,889</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$5,185</td>
<td>$ (2)</td>
<td>$5,183</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable to parent</td>
<td>$ 537</td>
<td>$ 178 [A]</td>
<td>$ 715</td>
<td></td>
</tr>
<tr>
<td>Trade accounts payable</td>
<td>218</td>
<td></td>
<td>218</td>
<td></td>
</tr>
<tr>
<td>Current portion of workers’ compensation liabilities</td>
<td>256</td>
<td></td>
<td>256</td>
<td></td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td>232</td>
<td></td>
<td>232</td>
<td></td>
</tr>
<tr>
<td>Current portion of post-retirement plan liabilities</td>
<td>175</td>
<td></td>
<td>175</td>
<td></td>
</tr>
<tr>
<td>Accrued employees’ compensation</td>
<td>186</td>
<td></td>
<td>186</td>
<td></td>
</tr>
<tr>
<td>Provision for contract losses</td>
<td>102</td>
<td></td>
<td>102</td>
<td></td>
</tr>
<tr>
<td>Advance payments and billings in excess of costs incurred</td>
<td>80</td>
<td></td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>218</td>
<td></td>
<td>218</td>
<td></td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>2,004</td>
<td>178</td>
<td>2,182</td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>283</td>
<td>(178) [A]</td>
<td>105</td>
<td></td>
</tr>
<tr>
<td>Other post-retirement plan liabilities</td>
<td>512</td>
<td></td>
<td>512</td>
<td></td>
</tr>
<tr>
<td>Pension plan liabilities</td>
<td>406</td>
<td></td>
<td>406</td>
<td></td>
</tr>
<tr>
<td>Workers’ compensation liabilities</td>
<td>267</td>
<td></td>
<td>267</td>
<td></td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>152</td>
<td></td>
<td>152</td>
<td></td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>74</td>
<td></td>
<td>74</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>3,698</td>
<td>—</td>
<td>3,698</td>
<td></td>
</tr>
<tr>
<td><strong>Common stock (par value $1.00)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Additional paid in capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td>1,985</td>
<td>(2) [A]</td>
<td>1,983</td>
<td></td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(498)</td>
<td></td>
<td>(498)</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>$1,487</td>
<td>$ (2)</td>
<td>$1,485</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>$5,185</td>
<td>$ (2)</td>
<td>$5,183</td>
<td></td>
</tr>
</tbody>
</table>

See Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements.

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On November 30, 2010, NGSB purchased $178.4 million of the outstanding principal amount of the GO Zone IRBs pursuant to a tender offer in anticipation of the spin-off. NGSB used cash provided by Northrop Grumman through an intercompany loan to purchase the GO Zone IRBs and submitted the purchased bonds to the trustee for cancellation. This intercompany loan has a principal balance of $178.4 million and carries the same 4.55% annual fixed interest rate as the GO Zone IRBs. In addition, $2 million of capitalized debt issuance cost, net of amortization, associated with the tendered principal amount, was expensed in the condensed consolidated statement of operations. The remaining $21.6 million of the GO Zone IRBs mature in 2028 and accrue interest annually at a fixed rate of 4.55% (payable semi-annually).
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 [date], 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. 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 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 also one of the nation’s leading full-service providers for the design, engineering, construction, and life cycle support of major surface ship programs 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:

**Flexibly 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 98% of our 2009 revenue was generated by flexibly priced contracts (including certain fixed-price incentive contracts which have exceeded their cost-share limit), with the remaining 2% from firm fixed-price arrangements. Substantially all of our revenue for 2009 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 16.”

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. 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.

**Consolidated Operating Results**

Selected financial highlights are presented in the table below:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Nine months ended</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 30</td>
<td>2009</td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$4,987</td>
<td>$4,610</td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td>4,370</td>
<td>4,018</td>
</tr>
<tr>
<td>Corporate home office and general and administrative expenses</td>
<td>473</td>
<td>446</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>144</td>
<td>146</td>
</tr>
<tr>
<td>Interest expense</td>
<td>30</td>
<td>33</td>
</tr>
<tr>
<td>Other, net</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>42</td>
<td>32</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>72</td>
<td>81</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 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>$ in millions</th>
<th>Nine months ended</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 30</td>
<td>2009</td>
</tr>
<tr>
<td>Product sales</td>
<td>$4,327</td>
<td>$3,673</td>
</tr>
<tr>
<td>Service revenues</td>
<td>660</td>
<td>937</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>$4,987</td>
<td>$4,610</td>
</tr>
</tbody>
</table>

**Nine Months Ended September 30, 2010** — Product sales for the nine months ended September 30, 2010 increased $654 million, or 18%, from the same period in 2009. The increase is primarily due to higher sales volume in the LPD and LHA expeditionary warfare programs and on the CVN-78 Gerald R. Ford aircraft carrier construction program. These increases were partially offset by 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 Condensed Consolidated Financial Statements (Unaudited)—Note 2”) 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 for the nine months ended September 30, 2010 decreased $277 million, or 30%, from the same period in 2009. The decrease is primarily due to the completion of the CVN-65 USS Enterprise Extended Dry-docking Selected Restricted Availability (“EDSRA”) early 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.

2008 — Product sales increased $297 million, or 6%, from 2007. The increase was primarily due to higher volume from the construction of DDG-51 and DDG-1000 surface combatants, SSN-774 Virginia-class submarines, and the aircraft carrier CVN-78 Gerald R. Ford. These increases were partially offset by lower sales on the LHD-8 construction program, which incurred a negative contract adjustment in the first quarter of 2008, as well as the impact of Hurricanes Ike and Gustav (see “Notes to Condensed Consolidated Financial Statements—Notes 5 and 14”).

Service revenues increased $200 million, or 26%, from 2007. The increase was primarily due to higher volume on the CVN-65 USS Enterprise EDSRA, which began in the second quarter of 2008, and a full year of sales from our AMSEC fleet support business, which became a consolidated subsidiary of NGSB in the third quarter of 2007 (see “Notes to Consolidated Financial Statements—Note 11”).

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>$ in millions</th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of product sales</td>
<td>$3,842</td>
<td>$3,230</td>
</tr>
<tr>
<td>% of product sales</td>
<td>88.8%</td>
<td>87.9%</td>
</tr>
<tr>
<td>Cost of service revenues</td>
<td>528</td>
<td>788</td>
</tr>
<tr>
<td>% of service revenues</td>
<td>80.0%</td>
<td>84.1%</td>
</tr>
<tr>
<td>Corporate home office and general and administrative expenses</td>
<td>473</td>
<td>446</td>
</tr>
<tr>
<td>% of total sales and service revenues</td>
<td>9.5%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Cost of sales and service revenues</td>
<td>$4,843</td>
<td>$4,464</td>
</tr>
</tbody>
</table>

Cost of Product Sales and Service Revenues

_Nine Months Ended September 30, 2010_ — Cost of product sales for the nine months ended September 30, 2010 increased $612 million, or 19%, from the same period in 2009 primarily as a result of the higher sales volume described above. The increase in cost of product sales as a percentage of product sales was driven by unfavorable margin adjustments of $113 million on LPD-23 and LPD-25 resulting from our decision to wind down shipbuilding operations at the Avondale facility in 2013 (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 2”), and a charge of $30 million recorded in the third quarter of 2010 to reflect additional costs to complete post-delivery work on LHD-8 USS Makin Island (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 6”). Results for 2009 included unfavorable performance adjustments totaling $145 million on the LPD-22 through LPD-25 contract, partially offset by a favorable adjustment of $54 million on the LHD-8 contract (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 6”).

Cost of service revenues for the nine months ended September 30, 2010 decreased $260 million, or 33%, from the same period in 2009 primarily as a result of the lower sales volume described above. The decrease in cost of service revenues as a percentage of service revenues is primarily due to higher earnings from the company’s equity method investments, which totaled $18 million and $6 million in the nine months ended September 30, 2010, and 2009, respectively (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 9”), as well as performance improvements realized on the CVN-65 USS Enterprise EDSRA in the first half of 2010.

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. The decrease in cost of product sales as a percentage of product sales resulted from the non-
recurring $263 million charge on LHD-8 and other Gulf Coast programs in 2008, partially offset by $171 million in charges in 2009 on the LPD-22 through LPD-25 contract (see “Notes to Consolidated Financial Statements—Note 5”).

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.

2008 — Cost of product sales in 2008 increased $680 million, or 17%, from 2007 primarily as a result of the higher sales volume described above. The increase in cost of product sales as a percentage of product sales is primarily due to cost growth at the Gulf Coast shipyards. In 2008, we recorded a non-recurring $263 million charge on LHD-8 and other Gulf Coast programs, as well as additional costs for work delays at a subcontractor on the LPD program as a result of Hurricane Ike.

Cost of service revenues in 2008 increased $205 million, or 33%, from 2007 primarily due to the sales volume increase described above. Cost of service revenues as a percentage of service revenues was reduced in 2007 by the $23 million gain on the AMSEC reorganization, which was recorded as a reduction to cost of service revenues in that year (see “Notes to Consolidated Financial Statements—Note 11”).

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.

Nine Months Ended September 30, 2010 — Corporate home office and other general and administrative expenses in the nine months ended September 30, 2010 increased to $473 million from $446 million in the comparable period in 2009 primarily as a result of higher cost allocations for Northrop Grumman management and support services and increased state income tax expense. The Northrop Grumman management and support services expense in the nine months ended September 30, 2010 increased to $84 million from $62 million in the comparable period of 2009. The increase in management and support services allocations reflects higher employee compensation expenses in 2010 and the favorable impact of the final allocation of prior year overheads. As a percentage of total sales and service revenues, these costs decreased period over period 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.

2008 — Corporate home office and other general and administrative expenses in 2008 decreased to $564 million from $641 million in 2007 primarily as a result of lower net pension and post-retirement benefits expense, lower cost allocations for Northrop Grumman management and support services, and lower state tax expense. The decrease in management and support services allocations was favorably impacted by of the final allocation of prior year overheads. Additionally, these cost allocations for 2007 included a charge to establish NGSB litigation reserves. As a percentage of total sales and service revenues, these costs decreased year over year due principally to the cost decreases described above and the higher sales volume in 2008.

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 8.”

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></th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment operating income (loss)</td>
<td>$178</td>
<td>$201</td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(34)</td>
<td>(66)</td>
</tr>
<tr>
<td>Deferred state income taxes</td>
<td>—</td>
<td>11</td>
</tr>
<tr>
<td>Total operating income (loss)</td>
<td>$144</td>
<td>$146</td>
</tr>
</tbody>
</table>

**Segment Operating Income (Loss)**

*Nine Months Ended September 30, 2010* — Segment operating income for the nine months ended September 30, 2010 was $178 million, a decrease of $23 million from the same period in 2009. Segment operating income was 3.5% and 4.3% of sales and service revenues for 2010 and 2009, respectively. The results for 2010 include the effects of our decision to wind down shipbuilding operations at the Avondale facility, which resulted in a $113 million charge to operating income in the second quarter of 2010 (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 2”), and a pre-tax charge of $30 million recorded in the third quarter of 2010 to reflect additional costs to complete post-delivery work on LHD-8 USS Makin Island (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 6”). Results for 2009 included unfavorable performance adjustments totaling $145 million on the LPD-22 through LPD-25 contract, partially offset by a favorable adjustment of $54 million on the LHD-8 contract (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—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 8”), 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 5 and 14”).

*2008* — Segment operating loss was $2.3 billion as compared with segment operating income of $491 million in 2007. The decrease was due to a goodwill impairment charge of $2.5 billion (see “Notes to Consolidated Financial Statements—Note 8”), and $366 million in net lower performance results at our Gulf Coast segment, partially offset by the higher sales volume described above. The decrease in performance results was primarily due to $263 million in net performance adjustments on LHD-8 and other programs in 2008, cost growth and schedule delays on multiple LPD ships resulting primarily from the effects of Hurricane Ike on an LPD subcontractor (see “Notes to Consolidated Financial Statements—Notes 5 and 14”), and the effect of reductions in contract booking rates resulting from risk assessments on programs throughout the Gulf Coast shipyards.

**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.

*Nine Months Ended September 30, 2010* — The net pension and post-retirement benefits adjustment was an expense of $34 million and $66 million for the nine months ended September 30, 2010, and 2009, respectively. The decrease in net expense in 2010 is primarily due to lower GAAP pension expense 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.

*2008* — The net pension and post-retirement benefits adjustment was an expense of $25 million and $46 million in 2008 and 2007, respectively. The lower net expense in 2008 was due to decreased GAAP pension expense, primarily resulting from better-than-estimated investment returns in prior years and higher discount rate assumptions.
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.

Nine Months Ended September 30, 2010 — There was no net benefit or expense associated with deferred state income taxes in the first nine months of 2010, compared to a benefit of $11 million for the same period 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.

2008 — Deferred state income tax expense in 2008 was $1 million, compared to a deferred state income tax benefit of $2 million in 2007. The change was primarily due to the timing of contract-related deductions.

Interest Expense

Nine Months Ended September 30, 2010 — Interest expense for the nine months ended September 30, 2010 decreased $3 million from the same period in 2009. The decrease is primarily due to higher capitalized interest in 2010, which resulted from a higher proportion of long-term capital projects accumulating such interest 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 proportion of long-term capital projects accumulating such interest in 2009 as compared to 2008.

2008 — Interest expense in 2008 decreased $2 million, or 4%, as compared with 2007. The decrease is primarily due to higher capitalized interest in 2008.

Other, net

2008 — Other, net for 2008 decreased $6 million as compared with 2007. In 2007, we earned interest income on restricted cash balances related to the Gulf Opportunity Zone Industrial Development Revenue Bonds. These cash balances were eliminated in 2008 when the restrictions were released. See “—Investing Activities” below and also “Notes to Consolidated Financial Statements—Note 10.”

U.S. Federal Income Taxes

Nine Months Ended September 30, 2010 — Our effective tax rate on earnings from continuing operations for the nine months ended September 30, 2010 was 36.8% compared with 28.3% for the same period 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, 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. As a result of the settlement, we reduced our liability for uncertain tax positions by approximately $9 million in the first nine months of 2010, which was recorded as a reduction to our provision for income taxes. See “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 8.”

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.

2008 — Our effective tax rate on earnings from continuing operations for 2008 was 27.1% (excluding the non-cash, non-deductible goodwill impairment charge of $2.5 billion) compared with 32.9% in 2007. The effective tax rate for 2008 was lower than 2007 due to the benefit of a higher wage credit and manufacturing deduction in 2008.
### Segment Operating Results

#### Basis of Presentation

We are aligned into two reportable segments: Gulf Coast and Newport News.

<table>
<thead>
<tr>
<th></th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales and Service Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$2,300</td>
<td>$2,123</td>
</tr>
<tr>
<td>Newport News</td>
<td>2,748</td>
<td>2,563</td>
</tr>
<tr>
<td>Intersegment eliminations</td>
<td>(61)</td>
<td>(76)</td>
</tr>
<tr>
<td><strong>Total sales and service revenues</strong></td>
<td>$4,987</td>
<td>$4,610</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Income (Loss)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$ (71)</td>
<td>$ (18)</td>
</tr>
<tr>
<td>Newport News</td>
<td>249</td>
<td>219</td>
</tr>
<tr>
<td><strong>Total Segment Operating Income (Loss)</strong></td>
<td>178</td>
<td>201</td>
</tr>
<tr>
<td>Non-segment factors affecting operating income (loss)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(34)</td>
<td>(66)</td>
</tr>
<tr>
<td>Deferred state income taxes</td>
<td>—</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total operating income (loss)</strong></td>
<td>$ 144</td>
<td>$ 146</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 15.
Gulf Coast

Nine months ended
September 30

<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>$2,300</td>
<td>$2,123</td>
<td>$2,865</td>
<td>$2,848</td>
<td>$2,681</td>
</tr>
<tr>
<td>Segment operating (loss) income</td>
<td>(71)</td>
<td>(18)</td>
<td>(29)</td>
<td>(1,433)</td>
<td>201</td>
</tr>
<tr>
<td>As a percentage of segment sales</td>
<td>(3.1)%</td>
<td>(0.8)%</td>
<td>(1.0)%</td>
<td>(30.3)%</td>
<td>7.3%</td>
</tr>
</tbody>
</table>

Sales and Service Revenues

Nine Months Ended September 30, 2010 — Gulf Coast revenues for the nine months ended September 30, 2010 increased $177 million, or 8%, from the same period in 2009, primarily driven by $314 million higher sales in Expeditionary Warfare, partially offset by $79 million lower sales in Surface Combatants and $56 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 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. 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.

2008 — Gulf Coast revenues increased $167 million, or 6%, from 2007. The increase was primarily due to $148 million higher sales in Surface Combatants and $145 million higher sales in Fleet Support, partially offset by $83 million lower sales in Expeditionary Warfare and $40 million lower sales in Coast Guard & Coastal Defense. The increase in Surface Combatants was primarily due to higher sales volume in the DDG-51 and DDG-1000 programs. The increase in Fleet Support was primarily driven by a full year of sales from AMSEC, which became a consolidated subsidiary of NGSB through a step acquisition in the third quarter of 2007. Expeditionary Warfare sales for 2008 were negatively impacted by a contract adjustment of $134 million on the LHD-8 program and the impact of Hurricane Gustav, partially offset by higher sales in the LPD program. The decrease in Coast Guard & Coastal Defense was due to the impact of Hurricane Gustav. In 2007, all programs at the Pascagoula, Mississippi facility were negatively impacted by a labor strike.

Segment Operating Income

Nine Months Ended September 30, 2010 — Gulf Coast operating loss for the nine months ended September 30, 2010 was $71 million as compared with a loss of $18 million in the same period in 2009. The increase in operating loss was driven primarily by unfavorable performance on Expeditionary Warfare programs. In Expeditionary Warfare, we recognized a $113 million charge to operating income in the second quarter of 2010 resulting from our decision to wind down shipbuilding operations at the Avondale facility in 2013 (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 2”). Additionally, we recorded a pre-tax charge of $30 million to reflect additional costs to complete post-delivery work on LHD-8 USS Makin Island (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 6”). We also realized $24 million in unfavorable performance adjustments on LPD-24 Arlington in the third quarter, which was more than offset by $31 million in milestone incentives on the total LPD-22 through LPD-25 contract. 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 $145 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 8”), 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 on the LPD-22 through LPD-25 contract (see “Notes to Consolidated Financial Statements—Note 5”).

2008 — Gulf Coast operating loss was $1.4 billion as compared with operating income of $201 million in 2007. The decrease was due to a goodwill impairment charge of $2.5 billion, of which the Gulf Coast segment realized $1.3 billion (see “Notes to Consolidated Financial Statements—Note 8”), and $366 million in net lower performance results, partially offset by the higher sales volume described above. The decrease in performance results was primarily due to $263 million.
in net performance adjustments on LHD-8 USS Makin Island and other programs in 2008 (see “Notes to Consolidated Financial Statements—Note 5”), cost growth and schedule delays on several LPD ships resulting primarily from the effects of Hurricane Ike on an LPD subcontractor (see “Notes to Consolidated Financial Statements—Note 14”), and the effect of reductions in contract booking rates resulting from risk assessments on programs throughout the Gulf Coast shipyards. Segment operating income for 2008 also included a $23 million gain on the AMSEC reorganization, which was recorded as an increase to operating margin in that year (see “Notes to Consolidated Financial Statements—Note 11”).

Newport News

<table>
<thead>
<tr>
<th></th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Sales and service revenues</td>
<td>$2,748</td>
<td>$2,563</td>
</tr>
<tr>
<td>Segment operating income (loss)</td>
<td>249</td>
<td>219</td>
</tr>
<tr>
<td>As a percentage of segment sales</td>
<td>9.1%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

Nine Months Ended September 30, 2010 — Newport News revenues for the nine months ended September 30, 2010 increased $185 million, or 7%, from the same period in 2009, primarily driven by $198 million higher sales in Aircraft Carriers. 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 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.

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.

2008 — Newport News revenues increased $383 million, or 13%, from 2007, primarily driven by $283 million higher sales in Aircraft Carriers and $64 million higher sales in 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-70 USS Carl Vinson RCOH. The increase in Submarines was primarily due to higher sales volume on the construction of SSN-774 Virginia-class submarines.

Segment Operating Income

Nine Months Ended September 30, 2010 — Newport News operating income for the nine months ended September 30, 2010 was $249 million compared with $219 million in the same period in 2009. The increase was primarily due to the impact of the sales volume changes described above for Aircraft Carriers and higher earnings from the company’s equity method investees, which totaled $18 million and $6 million in the nine months ended September 30, 2010, and 2009, respectively (see “Notes to Condensed Consolidated Financial Statements (Unaudited)—Note 9”).

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 8”). 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.

2008 — Newport News operating loss was $895 million as compared with operating income of $290 million in 2007. The decrease was due to a goodwill impairment charge of $2.5 billion, of which the Newport News segment realized $1.2 billion (see “Notes to Consolidated Financial Statements—Note 8”). Additionally, the change in segment operating income in 2008 includes the impact of the higher sales volume described above for Aircraft Carriers and Submarines.

Backlog

Total backlog at September 30, 2010, and December 31, 2009, was approximately $17 billion and $20 billion, respectively. Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which funding is not currently contractually obligated by the customer).
Backlog excludes unexercised contract options and unfunded 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 September 30, 2010 and December 31, 2009:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Funded</th>
<th>Unfunded</th>
<th>Total</th>
<th>Funded</th>
<th>Unfunded</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gulf Coast</strong></td>
<td>$4,095</td>
<td>$671</td>
<td>$4,766</td>
<td>$6,070</td>
<td>$38</td>
<td>$6,108</td>
</tr>
<tr>
<td><strong>Newport News</strong></td>
<td>5,807</td>
<td>6,539</td>
<td>12,346</td>
<td>5,141</td>
<td>9,116</td>
<td>14,257</td>
</tr>
<tr>
<td><strong>Total backlog</strong></td>
<td>$9,902</td>
<td>$7,210</td>
<td>$17,112</td>
<td>$11,211</td>
<td>$9,154</td>
<td>$20,365</td>
</tr>
</tbody>
</table>

Backlog is converted into the following years' sales as costs are incurred or deliveries are made. Approximately 21% of the $20 billion total backlog at December 31, 2009 is expected to be converted into sales in 2010. Total U.S. Government orders comprised 99% of the total backlog at the end of 2009. Backlog with other customers represented 1% of total backlog at the end of 2009.

**Awards**

*Nine Months Ended September 30, 2010* — The value of new contract awards during the nine months ended September 30, 2010, was approximately $1.7 billion. Significant new awards during this period include $194 million for the CVN-78 Gerald R. Ford aircraft carrier, $184 million for LPD-26 John P. Murtha, $130 million for LHA-7 (unnamed), and $114 million for DDG-114 Callaghan.

*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 the CVN-78 Gerald R. Ford aircraft carrier.

*2008* — The value of new contract awards during the year ended December 31, 2008, was approximately $14.9 billion. Significant new awards during this period include $5.6 billion for the Virginia-class submarine program, $5.1 billion for the CVN-78 Gerald R. Ford aircraft carrier, and $1.4 billion for the DDG-1000 Zumwalt-class destroyer.

**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>$ in millions</th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net earnings (loss)</td>
<td>$72</td>
<td>$81</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Gain on AMSEC reorganization</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>24</td>
<td>(65)</td>
</tr>
<tr>
<td>Other non-cash items (1)</td>
<td>143</td>
<td>136</td>
</tr>
<tr>
<td>Retiree benefit funding less than (in excess of) expense</td>
<td>79</td>
<td>(71)</td>
</tr>
<tr>
<td>Trade working capital (increase) decrease</td>
<td>(167)</td>
<td>(290)</td>
</tr>
<tr>
<td>Net cash (used in) provided by operating activities</td>
<td>$151</td>
<td>$(209)</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 the nine months ended September 30, 2010, and 2009, respectively, and for each of the three years in the period ended December 31, 2009, as classified on the consolidated statements of cash flows.

Operating Activities

Nine Months Ended September 30, 2010 — Net cash provided by operating activities for the nine months ended September 30, 2010, was $151 million compared with cash used of $209 million for the same period in 2009. The change of $360 million was driven by a decrease in discretionary pension contributions of $177 million, a smaller year-over-year increase in trade working capital driving a change of $123 million, and a decrease in deferred income tax balances of $89 million. Trade working capital balances include 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 Condensed Consolidated Financial Statements (Unaudited)—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 $28 million in 2010 compared with $84 million in 2009.

We expect cash generated from operations for 2010 to be sufficient to service debt, meet contract obligations, and finance capital expenditures. Although 2010 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 tax balances 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 Condensed Consolidated Financial Statements (Unaudited)—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 5”). 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—Notes 14”). U.S. Federal income tax payments made by Northrop Grumman on our behalf were $21 million in 2008.

2007 — Net cash provided by operating activities in 2007 of $610 million included the receipt of $123 million of insurance proceeds related to Hurricane Katrina, which reduced trade working capital, and no discretionary pension contributions. U.S. Federal income tax payments made by Northrop Grumman on our behalf were $158 million in 2007.

Investing Activities

Nine Months Ended September 30, 2010 — Cash used by investing activities for the nine months ended September 30, 2010, was $96 million compared with $120 million for the same period in 2009. Investing activities consisted principally of capital expenditures of $96 million in 2010 and $120 million in 2009.

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 Gulf Opportunity Zone Industrial Development Revenue Bonds (see “Notes to Consolidated Financial Statements—Note 10”).

2007 — Cash used by investing activities was $189 million in 2007, consisting primarily of $246 million in capital expenditures, including $118 million to replace property damaged by Hurricane Katrina. During 2007, we paid $8 million related to the reorganization of AMSEC and we received $66 million from the release of restricted cash related to the Gulf Opportunity Zone Industrial Development Revenue Bonds (see “Notes to Consolidated Financial Statements—Note 10”) of which $61 million remained restricted as of December 31, 2007.
Business Acquisitions

In July 2007, we reorganized AMSEC with our partner, Science Applications International Corporation (“SAIC”), by dividing AMSEC along customer and product lines. AMSEC is a full-service supplier that provides engineering, logistics and technical support services primarily to U.S. Navy ship and aviation programs. Under the reorganization plan, we retained the ship engineering, logistics and technical service businesses under the AMSEC name (the “AMSEC Businesses”) and, in exchange, SAIC received the aviation, combat systems and strike force integration services businesses (the “Divested Businesses”). We treated this reorganization as a step acquisition for the acquisition of SAIC’s interests in the AMSEC Businesses, and recognized a pre-tax gain of $23 million for the effective sale of our interests in the Divested Businesses. The gain represents the excess of the estimated fair value of the portion of NGSB’s investment in the joint venture that was deemed sold over the carrying value of that portion of the investment. The value assigned to the AMSEC Businesses represents the remaining net book value of NGSB’s investment in the joint venture plus the estimated fair value of the portion of the AMSEC Businesses acquired. The estimated fair value of the joint venture businesses was determined using the net present value of the discounted cash flows of each business. From the date of this reorganization, the operating results of the AMSEC Businesses and transaction gain have been presented in our consolidated results. Prior to the reorganization, we accounted for our ownership in AMSEC, LLC under the equity method.

Financing Activities

It is anticipated that, prior to the completion of the spin-off, we will (i) incur the HII Debt from third parties (in an amount of $ , at an interest rate of %, maturing on , 20 , with interest payable on , principal payable on and with certain covenants including restrictions on ), the proceeds of which are expected to be used to fund the $ Contribution and for general corporate purposes in the amount of $ and (ii) enter into the HII Credit Facility with third-party lenders (in an amount of $, comprising a $ term loan with interest payable on and principal payable on , and a $ revolving credit facility, both with a term of , and with certain covenants including restrictions on ).

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 unaudited condensed consolidated statements of cash flows. The net effect of these transactions is reflected in the parent’s equity in unit in the unaudited condensed consolidated statements of financial position.

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 flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP as indicators of performance.

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

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Nine months ended September 30</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash (used in) provided by operating activities</td>
<td>$151</td>
<td>$ (209)</td>
</tr>
<tr>
<td>Less capital expenditures</td>
<td>(96)</td>
<td>(120)</td>
</tr>
<tr>
<td>Free cash flow from operations</td>
<td>$ 55</td>
<td>$ (329)</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 such 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 2010 to be sufficient to service debt, meet contractual obligations, and finance capital expenditures.

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 both September 30, 2010, and December 31, 2009, there were $155 million of unused stand-by letters of credit and $296 million of surety bonds outstanding related to us. After completion of the spin-off, we will be an independent, publicly owned company and we plan 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.

Retirement of Debt — In connection with the 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. After the tender, $21.6 million of principal amount of the GO Zone IRBs remains outstanding.

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 Relationships and Related Party Transactions—Agreements with Northrop Grumman Related to the Spin-Off—Transition Services Agreement.”

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, 2009, and the estimated timing of future cash payments:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Total</th>
<th>2010</th>
<th>2011-2012</th>
<th>2013-2014</th>
<th>2015 and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable to parent (1)</td>
<td>$537</td>
<td>$537</td>
<td>$—</td>
<td>$—</td>
<td>$—</td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent (1)</td>
<td>212</td>
<td>212</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>283</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>283</td>
</tr>
<tr>
<td>Interest payments on long-term debt</td>
<td>268</td>
<td>16</td>
<td>32</td>
<td>32</td>
<td>188</td>
</tr>
<tr>
<td>Operating leases</td>
<td>152</td>
<td>22</td>
<td>37</td>
<td>26</td>
<td>67</td>
</tr>
<tr>
<td>Purchase obligations (2)</td>
<td>1,991</td>
<td>981</td>
<td>691</td>
<td>297</td>
<td>22</td>
</tr>
<tr>
<td>Other long-term liabilities (3)</td>
<td>576</td>
<td>120</td>
<td>285</td>
<td>112</td>
<td>59</td>
</tr>
<tr>
<td><strong>Total contractual obligations</strong></td>
<td>$4,019</td>
<td>$1,888</td>
<td>$1,045</td>
<td>$467</td>
<td>$619</td>
</tr>
</tbody>
</table>

**Pro forma adjustments reflecting separation from parent**

| Notes payable to parent and accrued interest contributed by Northrop Grumman to the capital of HII | (749) | (749) | — | — | — |
| Portion of long-term debt retired through 2010 tender offer (4) | (178) | — | — | — | (178) |
| Interest payments on long-term debt retired through tender (4) | (148) | (3) | (16) | (16) | (113) |
| **HII Debt issued in connection with spin-off** | — | — | — | — | — |
| **Total contractual obligations with pro forma adjustments** | $ | $ | $ | $ | $ |

(1) While there is no contractual requirement to repay these amounts in 2010, the notes payable to parent and accrued interest are presented as due in 2010 because such notes are due on demand by our parent. Northrop Grumman will contribute the amount of the notes payable to the capital of HII, including accrued interest, prior to the distribution date.

(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 $255 million is the current portion of workers’ compensation liabilities. It excludes obligations for uncertain tax positions of $26 million, as the timing of the payments, if any, cannot be reasonably estimated.

(4) In connection with the 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. In addition, $2 million of capitalized debt issuance costs associated with the tendered principal amount was written off in the condensed consolidated statement of operations. The remaining $21.6 million of GO Zone IRBs mature in 2028 and accrue interest at a fixed rate of 4.55% (paid semi-annually).

Further details regarding long-term debt and operating leases can be found in “Notes to Consolidated Financial Statements—Notes 10 and 13.”

**Off-Balance Sheet Arrangements**

As of September 30, 2010 and December 31, 2009, 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 13.”

**Quantitative and Qualitative Disclosures about Market Risk**

**Interest Rates** — At September 30, 2010, and December 31, 2009, 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 10.”

**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 September 30, 2010, and December 31, 2009, 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 completed and ultimate contract recovery include the availability, productivity and cost of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, the availability and timing of funding from the customer, 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 and other long-lived assets. We determined that no impairment existed as of June 30, 2010.

**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 are 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 September 30, 2010, and December 31, 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 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.

In July 2010, we recorded a $12 million liability for conditional asset retirement obligations associated with the wind down of shipbuilding operations at the Avondale, Louisiana facility by 2013 as this decision provided new information about the settlement timing for these potential obligations.

**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** — In 2007, we adopted a new accounting standard related to uncertain tax positions, and made a comprehensive review of our portfolio of uncertain tax positions at the date of adoption. Only tax positions meeting the more-likely-than-not recognition threshold may be recognized or continue to be 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 9.” 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 will be 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 6.04% at December 31, 2009, and 6.25% at December 31, 2008. Holding all other assumptions constant, and since net actuarial gains and losses were in excess of the 10% accounting corridor in 2009, an increase or decrease of 25 basis points in the discount rate as of December 31, 2009 would have decreased or increased pension and post-retirement benefit expense for 2010 by approximately $14 million, of which $1 million relates to post-retirement benefits, and decreased or increased the amount of the benefit obligation recorded at December 31, 2009, by approximately $120 million, of which $18 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 costs to changes in the discount rate was much higher in 2009 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 2009 and 2008, 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 2009, holding all other assumptions constant, would increase or decrease our pension and post-retirement benefit expense for 2009 by approximately $6 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 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. For 2009, we assumed an expected initial health care cost trend rate of 7.5% and an ultimate health care cost trend rate of 5.0% reached in 2014. In 2008, we assumed an expected initial health care cost trend rate of 8.0% and an ultimate health care cost trend rate of 5.0% be reached in 2012.

Differences in the initial through the ultimate health care cost trend rates within the range indicated below would have had the following impact on 2009 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>22</td>
<td>(23)</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 3.47% and 4.06% at December 31, 2009, and 2008, respectively, which were determined by using a GAAP-based risk-free rate based on future payment streams. Workers’ compensation benefit obligation on an undiscounted basis is $686 million and $713 million as of December 31, 2009 and 2008, respectively.

Accounting Standard Updates

The Financial Accounting Standards Board has issued new accounting standards which are not effective until after December 31, 2009. For further discussion of new accounting standards, see “Notes to Consolidated Financial Statements—Note 3.”

Accounting Standards Updates not effective until after September 30, 2010 are not expected to have a significant effect on our unaudited condensed consolidated financial position or results of operations.
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 refueller 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 the surface ships of, 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 almost 40,000 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. 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:

### Newport News Programs

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrier New Construction CVN-78</td>
<td>New aircraft carrier for the 21st century</td>
<td>Cost plus incentive fee</td>
<td>New construction contract expected to be awarded approximately every 5 years</td>
</tr>
<tr>
<td><em>Gerald R. Ford</em> class</td>
<td>Increased warfighting capabilities</td>
<td>Exclusive provider</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New propulsion plant</td>
<td>Incentivized capital investment under the planning contract</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduced ship manning</td>
<td>8-year design, 7.5-year construction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Focused on operating cost reduction</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Designed for modular construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrier RCOH</td>
<td>Complex overhaul of the ship’s machinery and equipment</td>
<td>Cost plus incentive fee</td>
<td>RCOH Execution contracts expected to be awarded approximately every 4 years</td>
</tr>
<tr>
<td></td>
<td>Refueling of both of the ship’s reactors</td>
<td>Exclusive provider</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significant renovation and modernization work</td>
<td>3-year advanced planning</td>
<td></td>
</tr>
<tr>
<td>Submarine New Construction SSN-774</td>
<td>Post-Cold War design focused on maneuverability, stealth, warfighting capability and</td>
<td>Fixed price incentive</td>
<td>Rate increasing from 1 to 2 annually in 2011</td>
</tr>
<tr>
<td><em>Virginia</em>-class and Fleet Support</td>
<td>affordability</td>
<td>Exclusive provider through joint production arrangement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Designed for modular construction</td>
<td>Incentivized capital investment</td>
<td>7 delivered, 11 additional in program backlog</td>
</tr>
<tr>
<td></td>
<td>Constructed under a teaming agreement with Electric Boat</td>
<td>Multi-ship buys</td>
<td>Block IV expected to include 9 submarines with anticipated award at the end of 2013</td>
</tr>
<tr>
<td></td>
<td>Planning yard services for <em>Los Angeles</em>-class and <em>Seawolf</em>-class</td>
<td>5-year construction</td>
<td></td>
</tr>
</tbody>
</table>
The table below sets forth the potential future programs in our Newport News segment:

### Newport News Potential Future Programs

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
</tr>
</thead>
</table>
| Aircraft Carrier Inactivation | • CVN-65 inactivation expected to begin in 2013  
• End-of-life nuclear reactor defueling  
• Inactivation of ship systems, equipment and machinery  
• 4-year execution  
• Contracts for \textit{Nimitz-class} carriers expected to be awarded approximately every 4 years beginning in 2023 |
| \textit{Ohio-class} Replacement Program | • Anticipated to begin in 2019  
• 30-Year Plan includes 12 SSBN(X) submarines  
• NGSB currently acting as subcontractor in design of SSBN(X) |
| Energy | • AREVA Newport News: Manufacturing heavy reactor components  
• DoE: Site management and operations  
• Newport News Industrial |

### 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 \textit{San Antonio}-class amphibious transport dock ships: LPD-22 \textit{San Diego} (scheduled for delivery in 2011) and LPD-24 \textit{Arlington} (scheduled for delivery in 2012) in our Pascagoula, Mississippi shipyard, and LPD-23 \textit{Anchorage} (scheduled for delivery in 2012) and LPD-25 \textit{Somerset} (scheduled for delivery in 2013) in our Avondale shipyard. Long-lead procurement is currently underway for LPD-26. As we complete work on LPD-23 \textit{Anchorage} and LPD-25 \textit{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. In July 2010, we delivered the DDG-107 *Gravely* to the U.S. Navy, and at present, we are completing work on DDG-110 *William P. Lawrence* (scheduled for delivery in early 2011). Long-lead procurement is currently underway for DDG-113.

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. Long lead procurement is underway for NSC-4 *Hamilton*.

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:

**Gulf Coast Programs**

<table>
<thead>
<tr>
<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/Future Surface Combatants expected for procurement by 2031  
• Long lead time and material contract awarded for DDG-113 |
| 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 |
The table below sets forth a potential future program in our Gulf Coast segment:

### Gulf Coast Potential Future Program

<table>
<thead>
<tr>
<th>Program Name</th>
<th>Program Description</th>
<th>Contract Overview</th>
<th>Funding Overview</th>
</tr>
</thead>
</table>
| LHA-6 America-class Next Generation Amphibious Ship for Joint Operations | • Navy’s largest warfare ship for joint operations  
• Gas turbines  
• All electric auxiliaries | • Fixed price incentive  
• 5-year construction | • LHA-6 under construction  
• Long lead time and material contract awarded for LHA-7 |
| National Security Cutter (Legend Class) | • Largest/most capable of the U.S. Coast Guard’s new multi-mission cutters  
• Twin-screw propulsion  
• Two hangars/large flight deck | • Cost plus incentive fee (NSC 1—3)  
• 3-year construction | • Plan for a total of 8 ships  
• 2 delivered (NSC-1, 2), 1 under construction (NSC-3)  
• Long lead time and material contract awarded for NSC-4 |

**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 the surface ships of, 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 September 30, 2010 was approximately $17 billion. At the end of 2009, total orders from the U.S. Government composed 99% 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 66% of our revenues in 2008 and 2009.
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. 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 almost 40,000 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 June 1, 2010, we had 891 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 March 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. 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 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 is constructing a production facility for the manufacture of heavy commercial nuclear power plant components, expected to be completed in 2013. 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.

**Newport News Industrial**

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.
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 $58 million 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, EACs, 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, a long lead time material contract for LPD-26 *John P. Murtha* was awarded in June 2009.

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. In July 2010, we delivered the DDG-107 *Gravely* to the U.S. Navy, and, at present, we are completing construction on DDG-110 *William P. Lawrence* (scheduled for delivery in early 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 long lead procurement is underway for NSC-4 Hamilton. 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 approximately 99% of total revenues for the nine months ended September 30, 2010 and 2009, and for each of the years ended 2009, 2008 and 2007. Of those revenues in 2009, 96% were from the U.S. Navy and 4% 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 $21 million for each of the years 2009, 2008 and 2007, 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

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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 business, financial condition and results of operations. See “Risk Factors—Risks Relating to Our Business.”

**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, 2009, 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 business, financial condition or results of operations.

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. 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 Agency’s extension request.

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 business, financial condition or results of operations.

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 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 June 1, 2010, we had 891 Master Shipbuilders (542 in Newport News, 349 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 business, financial condition or results of operations. We believe that our relationship with our employees is satisfactory.
Properties

At December 31, 2009, we had operations in San Diego, California; Avondale (New Orleans), Tallulah, and Waggaman, 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 sites across the Gulf Coast are located in Pascagoula and Gulfport, Mississippi and Avondale, Harahan and Tallulah, 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 primarily manufactures components and engages in the subassembly of such components in its 115,000-square foot production shop. Our San Diego and Virginia Beach facilities provide fleet support services.

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 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.

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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 (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 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 the relator’s hull, mechanical and engineering allegations and continued the trial date to December 1, 2010, to allow the relator and a co-defendant time to finalize a settlement. If the settlement with the co-defendant becomes final, we expect the case against us will be concluded with the exception of a possible appeal of the District Court’s orders dismissing the allegations against us. Should the settlement not be concluded, we will file a motion to be excluded from the December 1, 2010 trial. Based upon the available information regarding matters that are subject to U.S. Government investigations, we believe that the outcome of any such matters would not have a material adverse effect on our business, financial condition or results of operations.

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 business, financial condition or results of operations.

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. In November 2007, FM Global filed a notice of appeal of the District Court’s order. 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. Northrop Grumman filed a Petition for Rehearing En Banc, or in the Alternative, for Panel Rehearing with the Ninth Circuit on August 27, 2008. 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 if it so chooses. 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 intend to continue to pursue the breach of contract litigation against FM Global and will consider whether to bring a separate action against Aon in state court. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of this matter.

However, if we are successful in the claim, the potential impact to our 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 NGRMI, a wholly owned subsidiary of Northrop Grumman, for certain losses related to Hurricane Katrina. Northrop Grumman was subsequently notified that Munich Re also will seek 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. 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. Any payments to be made to NGRMI in connection with this matter would be for the benefit of our accounts, and payments to be made to Munich Re, if any, would be made by us.

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. 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 business, financial condition or results of operations. See “Notes to Consolidated Financial Statements—Note 14.”
Our Executive Officers

The following table sets forth certain information as of , 2010, 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>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>50</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 Edenzon</td>
<td>56</td>
<td>Vice President and General Manager — Gulf Coast Operations</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>50</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. We are in the process of identifying the individuals who will be additional directors following the spin-off, and we expect to provide details regarding these individuals in an amendment to this information statement.

<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>50</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.

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 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 diverse 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:

Mr. Fargo’s experience in 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.

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 , the proposed Class II directors will include and the proposed Class III directors will include .

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 , , and . 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 the requirements 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. .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 , , and possess accounting or related financial management expertise within the meaning of the NYSE listing standards and that each qualifies as an “audit committee financial expert” as defined under the applicable SEC rules.

Compensation Committee. The members of the Compensation Committee are expected to be , , and . The Compensation Committee will oversee all compensation and benefit programs and actions that affect our senior executive officers. The Compensation Committee will also provide strategic direction for our overall compensation structure, policies and programs and will review senior officer 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. .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 , , and . The Governance Committee will be responsible for developing and recommending to the board of directors criteria for identifying and evaluating director candidates; identifying, reviewing the qualifications of and recruiting 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. .com and will be available in print to any stockholder that requests it.

Director Independence. Our board of directors, upon recommendation of our Governance Committee, is expected to formally determine the independence of its directors following the spin-off. The board of directors of Northrop Grumman has affirmatively determined that the following directors, who are anticipated to be elected to our board of directors, are independent: , , and . Our board of directors is expected to annually determine the independence of directors based on a review by the directors and the Governance Committee. No director will be considered independent unless the board of directors determines that he or she has no material relationship with us, either directly or as a partner, stockholder, or officer of an organization that has a material relationship with us. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable, and familial relationships, among others. To evaluate the materiality of any such relationship, the board of directors has determined it is in the best interests of the company to adopt categorical independence standards which will be set forth in the Corporate Governance Guidelines. The standards that will be relied upon by the board of directors in affirmatively determining whether a director is independent are composed, in part, of those objective standards set forth in the NYSE rules, which generally provide that

- A director who is an employee, or whose immediate family member (defined as a spouse, parent, child, sibling, father- and mother-in-law, son- and daughter-in-law, brother- and sister-in-law and anyone, other than a domestic employee, sharing the director’s home) is an executive officer of the company, would not be independent until three years after the end of such relationship.
- A director who receives, or whose immediate family member receives, 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.
• 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 that may be in accordance with our Corporate Governance Guidelines.

Director Compensation Table

The following table sets forth information concerning the 2009 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 ($)</th>
<th>Stock Awards ($)</th>
<th>Total ($)</th>
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</thead>
<tbody>
<tr>
<td>Thomas B. Fargo(3)</td>
<td>115,000</td>
<td>120,000</td>
<td>235,000</td>
</tr>
</tbody>
</table>

Footnotes:

(1) In 2009, non-employee directors of Northrop Grumman earned an annual retainer of $220,000, $120,000 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”). In addition, each director was permitted to defer payment of all or a portion of his or her remaining board retainer fee. The deferred compensation is placed in a stock unit account until the conclusion of the director’s board service and all deferral elections must be made prior to the beginning of the year for which the retainer and fees will be paid. Directors are credited with dividend equivalents in connection with the shares of Common Stock which are also paid out upon termination of board service. The 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>
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<tr>
<td>Audit Committee Chair Retainer</td>
<td>20,000</td>
</tr>
<tr>
<td>Compensation Committee Chair Retainer</td>
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</tr>
<tr>
<td>Governance Committee Chair Retainer</td>
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</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>
</tbody>
</table>

(2) Represents the target value of stock units awarded to each non-employee director of Northrop Grumman in 2009 under the 1993 Directors Plan. 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) Mr. Fargo received an additional $5,000 for service on an Ad Hoc Committee of the Board during 2009.
Deferred Stock Units

As of December 31, 2009, 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>3,611</td>
<td>0</td>
<td>3,611</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 2009 fiscal year, which ended on December 31, 2009, this Compensation Discussion and Analysis focuses primarily on our compensation programs and decisions with respect to 2009 and the processes used to determine 2009 compensation. The information in this section, including in the tables herein, is presented as of December 31, 2009 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 2009.

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 2009.

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 2009.

Section II — Elements of Compensation: provides more details on our main compensation elements for HII NEOs for 2009—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 2009.

Compensation Philosophy

The following compensation principles were based on principles approved by the Northrop Grumman Compensation Committee and formed the basis of the Compensation Philosophy.

- 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 were the predominant factor.

- Successful accomplishment of business goals in both annual operating performance and the achievement of increased stockholder value was designed to produce significant individual rewards, and failure to attain business goals negatively affected 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 2009, over 75% 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 2009

Role of Northrop Grumman Management

Northrop Grumman has an annual compensation cycle that has historically taken place during the first quarter each year where we determine 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 was 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 and Administrative 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 and the Northrop Grumman CHRO. 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 2009, the Northrop Grumman Compensation Committee, acting pursuant to authority under its charter, reviewed and approved compensation recommendations for our President. These compensation actions did not include a salary increase but did include an annual bonus payment of $603,750 for 2008 and the grant of long-term incentives that included a grant of 119,050 stock options and a grant of 20,700 Restricted Performance Stock Rights (“RPSRs”) for the 2009 through 2011 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 stock options and 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, CEO of Frederic W. Cook & Co., Inc. (“FW Cook”), for guidance in determining the levels and structure of executive compensation which included our President. The Northrop Grumman Compensation Committee also utilized competitive salary data provided to the Northrop Grumman Compensation Committee by FW Cook and by Hewitt Associates (“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 received no other compensation from Northrop Grumman or from us except in connection with his 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, Northrop Grumman Management collected compensation data from both the Target Industry Peer Group and a General Industry Peer Group to perform annual analyses.

The Northrop Grumman Compensation Committee determined that these groups provided a reasonable and relevant comparison of market data for 2009. The Target Industry Peer Group consisted of the following 11 companies:

Target Industry Peer Group
Alcoa, Inc.
The Boeing Co.
The Dow Chemical Co.
E. I. du Pont de Nemours & Co.
General Dynamics Corp.
General Electric Co.
Honeywell International, Inc.
Johnson & Johnson
Lockheed Martin Corp.
Raytheon Co.
United Technologies Corp.

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Historically, the General Industry Peer Group fluctuated from year to year based on the companies participating in Hewitt’s annual executive compensation survey. For 2009, peer group data was compiled from 35 organizations of similar revenue size and employee population and then analyzed. The analysis included a review of data as reported in the surveys (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. The following companies were included in this group for 2009:

**General Industry Peer Group**

3M
Abbott Laboratories
The Boeing Co.
Caterpillar, Inc.
Chevron Corp.
Comcast Corp.
CVS Corp.
Deere & Co.
The Dow Chemical Co.
Emerson Electric Co.
FedEx Corp.
General Dynamics Corp.
General Electric Co.
General Motors Corp.
Honeywell International, Inc.
Humana, Inc.
IBM Corp.
International Paper Co.
Johnson & Johnson
Johnson Controls, Inc.
Kraft Foods, Inc.
Lockheed Martin Corp.
 Lowe’s Companies, Inc.
Macy’s, Inc.
Medco Health Solutions, Inc.
PepsiCo, Inc.
Philip Morris International
The Procter & Gamble Co.
Sears Holding Corp.
Target Corp.
Time Warner, Inc.
United Technologies Corp.
Valero Energy Corp.
The Walt Disney Co.
Wellpoint, Inc.

**Compensation for Our President**

Hewitt Consultants provided an analysis of elected officers in the two peer groups compared to Northrop Grumman executives. This information was analyzed by FW Cook and presented to the Northrop Grumman Compensation Committee in December as a basis for making base salary, bonus and long-term incentive plan recommendations the following February. The Northrop Grumman CEO used this information to determine compensation for his direct reports, including our President, which compensation was approved by the Northrop Grumman Compensation Committee.

**Compensation for Other HII NEOs**

Northrop Grumman Management had available extensive information on competitive market practices. The primary source of survey information that Northrop Grumman Management relied on 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 FW Cook 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. Statistical analysis was also used to view market data on a size-adjusted basis.

Each of our executive positions that could be compared to relevant peer data was benchmarked to the relevant data. Executive positions that are 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, LTI and bonus. Once the survey results were released, the matches were confirmed and the market data was extracted for use in determining annual salary, bonus and LTI recommendations. In 2009, the total direct compensation for the HII NEOs was within the 25th and 75th percentiles of the market data reviewed. Total direct compensation includes 2009 base salary, 2010 bonus earned in 2009 and the 2009 stock grant.


**Risk Assessment**

During the fourth quarter of 2009 the Northrop Grumman board of directors performed 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 FW Cook. As a part of these risk assessments, the following were considered:

- 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 and stock ownership guidelines, 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 2009 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 sector financial performance for all executives other than our President, which is based on Northrop Grumman financial performance, and adjusted for individual performance | 2009 financial performance criteria were:  
• new business awards  
• sales  
• pension-adjusted operating margin  
• free cash flow before discretionary pension funding |
|                         |                           | Cash         |
| Long-Term Incentives    | • for 2009, long-term incentives granted to our President in the form of Northrop Grumman stock options (60%) and Northrop Grumman Restricted Performance Stock Rights (40%); to two other HII NEOs who were general managers in the form of Northrop Grumman stock options (10%) and Northrop Grumman Restricted Performance Stock Rights (90%), and two HII NEOs in the form of Northrop Grumman Restricted Performance Stock Rights (100%) |
|                         | See below |                           | Equity        |
| Stock Options           | • provided direct alignment with stockholder interest while serving as a retention tool |
|                         | Variable, based on Northrop Grumman stock price |                           | Equity        |
| Restricted Performance Stock Rights | • designed to establish a long-term performance perspective for the executives  
• stock-based arrangement to create stockholder-managers interested in Northrop Grumman’s sustained growth and prosperity |
|                         | Variable, based on:  
• pension-adjusted operating margin  
• pension-adjusted return on net assets  
• Northrop Grumman stock price |                           | Equity        |
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.

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 its assessment of the financial performance against pre-determined performance criteria and individual performance.

The incentive bonus targets below were established for the HII NEOs below.

### 2009 Annual Incentive Targets

<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 Edenzon</td>
<td>Vice President and General Manager – Gulf Coast Operations</td>
<td>45%</td>
<td>0% - 90%</td>
</tr>
<tr>
<td>Matthew 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 2009, our President’s Target Bonus was evaluated based on Northrop Grumman Company Performance Factor (“CPF”) and an Individual Performance Factor (“IPF”). The remaining HII NEOs’ Target Bonus was evaluated on our Sector Performance Factor (“SPF”) and an IPF. Within the annual incentive formula described below, the CPF and SPF can range from 0% to 200%. In 2009, the IPF range was adjusted from 0-200% to 0-125%. Final bonus award payments were capped at 200% of an individual’s target bonus.

### Annual Incentive Formula for 2009

Base Salary x Target% = Target Bonus

Target Bonus x CPF (or SPF) x IPF = Final Bonus Award

At the conclusion of each 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. Our President’s IPF was determined by the Northrop Grumman Compensation Committee based upon an annual performance evaluation conducted by the Northrop Grumman CEO. The IPF was determined based upon consideration of the following factors:

- Financial performance
- Strategic leadership and vision
- Program execution/performance
- Collaboration and integration across businesses
- Customer relationships
• Operating (supplemental) objectives

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 had full discretion to make adjustments to the CPF and/or SPF if it determined such adjustment was warranted. For example, in instances where our performance had been impacted by unforeseen events (natural disasters, significant acquisitions or divestitures, etc.), the Northrop Grumman Compensation Committee had exercised its authority in the past to modify the final awards. The Northrop Grumman Compensation Committee had 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 2009 are described below.

2009 Annual Incentive Goals and Results

For the 2009 performance year, the Northrop Grumman Compensation Committee determined that the Northrop Grumman performance goals should focus on capturing new business awards, increasing sales, expanding the current pension-adjusted operating margin and on the delivery of free cash flow before discretionary pension funding. Each metric/goal is described below and shown with its relative weighting. Goals for target performance were based on Northrop Grumman’s and our annual operating plan.

Northrop Grumman Goals that were Applicable to our President

Amounts in Billions

<table>
<thead>
<tr>
<th>Metric/Goal</th>
<th>Weighting</th>
<th>Threshold Performance</th>
<th>Target Performance</th>
<th>Maximum Performance</th>
<th>2009 Actual Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Awards Resulting in Increased Backlog</td>
<td>15%</td>
<td>$26.0</td>
<td>$29.0</td>
<td>$32.0</td>
<td>$33.99</td>
</tr>
<tr>
<td>Sales</td>
<td>15%</td>
<td>$33.5</td>
<td>$34.5</td>
<td>$35.5</td>
<td>$35.2</td>
</tr>
<tr>
<td>Pension-Adjusted Operating Margin*</td>
<td>35%</td>
<td>$2.68</td>
<td>$2.93</td>
<td>$3.195</td>
<td>$2.98</td>
</tr>
<tr>
<td>Free Cash Flow Before Discretionary Pension Fund</td>
<td>35%</td>
<td>$1.575</td>
<td>$2.075</td>
<td>$2.575</td>
<td>$2.38</td>
</tr>
</tbody>
</table>

* This goal was based on achieving specific operating margin dollar amounts (adjusted for net FAS/CAS pension expense).

The AIP score for our President was based upon the Northrop Grumman scores for each individual financial goal.

Goals that were Applicable to the Remaining HII NEOs

Amounts in Millions

<table>
<thead>
<tr>
<th>Metric/Goal</th>
<th>Weighting</th>
<th>Threshold Performance</th>
<th>Target Performance</th>
<th>2009 Actual Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Awards Resulting in Increased Backlog</td>
<td>15%</td>
<td>$2,716</td>
<td>$3,016</td>
<td>$4,976</td>
</tr>
<tr>
<td>Sales</td>
<td>15%</td>
<td>$5,687</td>
<td>$5,862</td>
<td>$6,213</td>
</tr>
<tr>
<td>Operating Margin*</td>
<td>35%</td>
<td>$447</td>
<td>$472</td>
<td>$2,99</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>35%</td>
<td>$281</td>
<td>$321</td>
<td>$1</td>
</tr>
</tbody>
</table>

* This goal was based on achieving specific operating margin dollar amounts.

AIP scores for our NEOs other than our President were based upon our level of participation in the Northrop Grumman scores for each individual financial goal. Full participation in the Northrop Grumman score required us to achieve our target performance values.

If we did not achieve the target value for full participation, we received less than 100% of the Northrop Grumman score for the metric. We received a zero score for any metric where our performance fell below the threshold value. The summation of our weighted sector financial metric scores was multiplied by an operating factor to arrive at the final AIP score. The operating factor was based on our performance as measured against a set of specific pre-approved non-financial objectives.
For 2009, we exceeded our targets for awards and sales and received the full Northrop Grumman score for these two metrics. We did not meet the threshold values for operating margin and free cash flow, so we received zero for these two metrics. After applying the operating factor and CEO discretion to the total financial score, the final SPF was 65%.

In 2009, Northrop Grumman sold the Advisory Services Division (“ASD”). The 2009 performance assessment included ASD operating results for the 50-week period of time that Northrop Grumman owned them and excluded the impact of state and, for free cash flow purposes, Federal taxes associated with the sale of ASD. Performance for all four metrics was above the target level resulting in a calculated CPF of 153%. Based on an assessment of performance at Northrop Grumman’s five operating units, the Northrop Grumman CEO recommended to the Northrop Grumman Compensation Committee a lower CPF of 125% for our President and at the recommendation of our President, he received a lower IPF score of 65% which was consistent with the SPF factor for our sector, and these recommendations were accepted by the Northrop Grumman Compensation Committee.

The Northrop Grumman Compensation Committee considered 2009 performance and results against the specific 2009 company and individual goals. The Northrop Grumman Compensation Committee reviewed the level of achievement for each objective. The actual incentive award for our President paid for 2009 performance was based on Northrop Grumman’s performance factor of 125% (and an individual performance factor of 65% at his recommendation) and the actual incentive awards for the remaining HII NEOs paid for 2009 performance were based on our performance factor of 65%. The other HII NEOs all met or exceeded their individual performance targets which resulted in IPFs ranging from 128% to 137%, but due to our SPF of 65%, payouts were below target.

Details on the range of bonuses that could have been payable based on 2009 performance are provided in the Grants of Plan-Based Awards table. Actual bonus payouts for 2009 performance are provided in the Summary Compensation Table.

Long-Term Incentive Compensation

2009 Stock Option and Restricted Performance Stock Right Awards

During 2009, 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 2009, 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 believed that value-based guidelines more effectively allowed for the delivery of target opportunities that were consistent with median awards given to individuals holding comparable positions at peer companies.

2009 Long-Term Incentive Target Value

<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>93%</td>
</tr>
<tr>
<td>Irwin Edenzon</td>
<td>Vice President and General Manager — Gulf Coast Operations</td>
<td>115%</td>
</tr>
<tr>
<td>Matthew Mulherin</td>
<td>Vice President and General Manager — Newport News Operations</td>
<td>115%</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
<td>Vice President and Chief Human Resources Officer</td>
<td>78%</td>
</tr>
</tbody>
</table>

In 2009, the Northrop Grumman Compensation Committee granted approximately 60% of the target value in the form of stock options and approximately 40% in the form of RPSRs to our President. The Northrop Grumman Compensation Committee and the Northrop Grumman CEO believed it was important to utilize performance-based units such as RPSRs in combination with stock options, as this long-term incentive combination focused on creating stockholder value. Stock options granted to our President in 2009 vest in three annual installments of 33.3% each, becoming fully vested after three years, and expiring after seven years. For other NEOs who were also general managers, the Northrop Grumman CEO approved awards 90% in the form of RPSRs and 10% the form of stock options which vest in three annual installments of 33.3% each, becoming fully vested after three years and expiring after seven years. For other NEOs who were not general managers the Northrop Grumman CEO approved awards 100% in the form of RPSRs.

The Northrop Grumman Compensation Committee evaluated RPSR performance requirements each year to ensure they were aligned with Northrop Grumman’s objectives. For the 2009 grant, the Northrop Grumman Compensation Committee reviewed the performance metrics with management and determined that 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 was based upon achieving a RONA of 14.0% and achieving a pension-adjusted operating margin rate of 9.2% at the end of 2011.

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 2009 stock option and RPSR grants to the HII NEOs are provided in the Grants of Plan-Based Awards Table.


During the first quarter of each year, the Northrop Grumman Compensation Committee reviewed 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. In general, the payout multiples were mathematically calculated. The calculations were performed by an independent third party (CharterMast Partners, LLC) with inputs to the calculations agreed to the accounting records for historical accounting results by Internal Audit. The results were presented to the Northrop Grumman Compensation Committee for its review and approval. The Northrop Grumman Compensation Committee had full authority to make adjustments to the payout multiple if it determined such adjustment was warranted. For example, in instances where performance had been impacted by unforeseen events (natural disasters, significant acquisitions or divestitures, etc.), the Northrop Grumman Compensation Committee had used discretion in the past to modify the final awards. Individual performance was not relevant to the amount of the final payout for RPSRs.

During the February 2010 meeting, the Northrop Grumman Compensation Committee reviewed performance for the January 1, 2007 to December 31, 2009 RPSR performance period. The 2007 grant was linked to two performance factors designed to encourage the financial return performance and growth of Northrop Grumman. The final award for this grant of RPSRs was based on an equally weighted sum of two metrics: average cash flow return on investment (“CFROI”) and the cumulative amount of pension-adjusted operating margin over the three-year period. The return performance was measured by average CFROI and the growth was measured by pension-adjusted operating margin. CFROI is the average of the three annual CFROI performance levels, measured as the spread between actual CFROI and the cost of capital (“CoC”). 2009 performance included ASD operating results for the 50-week period of time that Northrop Grumman owned them and excluded the impact of state and Federal taxes associated with the sale of ASD. For all three years, CFROI excluded the annual non-cash pension and other post-retirement benefit plan re-measurement impacts required by SFAS No. 158 which was adopted after the goals were established.

The amount of cumulative pension-adjusted operating margin over the three-year period was less than the threshold amount primarily because of the $3.1 billion goodwill impairment charge taken by Northrop Grumman in 2008. The three-year average CFROI less CoC was 12.9% which exceeded the target of 6.8%. The combined score for the two metrics was 87%.

**Other Benefits**

This section describes the other benefits HII NEOs received in 2009. 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 (subject to small variations due to contractual restrictions under the plans) as follows:
Each elected 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 elected 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 provided 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 will be 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**

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.

**Use of Northrop Grumman Aircraft**

The NEOs were able to utilize Northrop Grumman aircraft for business and personal travel. Throughout the year, if the NEOs 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 as well as a change-in-control Special Agreement for certain elected officers, including our President. These programs fit into Northrop Grumman’s overall compensation objectives by providing incentives that were intended to ensure the interests of stockholders continue to be paramount in times of job related uncertainty. Significant reductions to the change-in-control benefits were approved in 2008 and 2009. These changes were made to bring current program provisions into better alignment with similar benefits found in the market.

These plans were intended to address unusual, one-time events outside the scope of normal duties; they generally have not been taken into account in determining other elements of compensation for the HII NEOs. Both plans provided compensation and benefits for a reasonable period if participants were terminated. The change-in-control Special Agreement plan was designed to help retain key executives during uncertain times surrounding an acquisition and allow executives to remain focused on managing the company in the best interests of its stockholders. The only HII NEO who had a Special Agreement was our President. In addition, during its March 2010 meeting, the Northrop Grumman Compensation Committee approved the termination of all change-in-control programs at Northrop Grumman as of December 31, 2010.

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 were provided to the HII NEOs under the Northrop Grumman Severance Plan for Elected and Appointed Officers were the following:

For our President

- Lump sum cash payment = 1½ 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 Remaining 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
- Auto Allowance for one year in the amount of $13,000

Additional information on the benefits provided under severance and change-in-control plans 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 Northrop Grumman Severance Plan for Elected and Appointed Officers or under the CIC Special Agreement 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 2009, 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 2009 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 2009 grant was approved after the filing of Northrop Grumman’s Form 10-K for 2008 on February 10, 2009, as the Northrop Grumman Compensation Committee and Northrop Grumman CEO believed it was important to have the grant occur following the release of detailed financial information about the company. This approach allowed 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 applied to the HII NEOs. These guidelines were 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: \(1 \frac{1}{2} \times \) 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 or Northrop Grumman Financial Security and Savings Program

Stock options and unvested RPSRs were not included in calculating ownership until they were converted to actual shares owned.

During its September 2009 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 remaining HII NEOs stock ownership holdings. The Northrop Grumman Compensation Committee and the Northrop Grumman CEO were satisfied with the efforts of all officers to maintain compliance and acknowledged the challenges presented by the poor performance of the equity markets through 2008 and 2009.

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, and subsequently amended the clawback policy in March 2010. The policy applied to our NEOs and all other employees at the level of Vice President or higher. Under this policy, the company could recover annual and long-term incentive compensation when incentive payments had been based on financial results that were later restated. 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 were to be recovered.

**Stock Holding Requirement**

Effective with February 2010 awards, Northrop Grumman implemented a new stock holding policy for officers. This new policy works in conjunction with the stock ownership requirements and requires all officers (CPC 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 is 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 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.
## Summary Compensation Table

### 2009 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 ($)</th>
<th>Deferred Compensation ($)</th>
<th>Change in Pension Value and Non-Qualified Deferred Compensation ($)</th>
<th>All Other Compensation ($)</th>
<th>Total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Michael Petters</td>
<td>2009</td>
<td>572,788</td>
<td>0</td>
<td>1,490,069</td>
<td>401,187</td>
<td>330,000</td>
<td>593,065</td>
<td>76,789</td>
<td>3,944,588</td>
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<td>President and Chief</td>
<td>2008</td>
<td>566,827</td>
<td>0</td>
<td>2,108,476</td>
<td>466,494</td>
<td>605,750</td>
<td>400,672</td>
<td>73,803</td>
<td>4,851,082</td>
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<tr>
<td>Executive Officer</td>
<td>2007</td>
<td>482,508</td>
<td>0</td>
<td>1,125,171</td>
<td>584,380</td>
<td>600,000</td>
<td>470,476</td>
<td>57,529</td>
<td>3,348,854</td>
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<tr>
<td>Barbara A. Niland</td>
<td>2009</td>
<td>312,115</td>
<td>0</td>
<td>920,387</td>
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<td>110,000</td>
<td>543,320</td>
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<tr>
<td>Vice President and Chief</td>
<td>2008</td>
<td>297,019</td>
<td>0</td>
<td>532,344</td>
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<td>174,500</td>
<td>376,568</td>
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<tr>
<td>Financial Officer</td>
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<td>258,243</td>
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<td>328,175</td>
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<td>192,100</td>
<td>317,377</td>
<td>76,337</td>
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<tr>
<td>Irwin F. Edenzon</td>
<td>2009</td>
<td>347,115</td>
<td>0</td>
<td>1,051,902</td>
<td>59,061</td>
<td>140,000</td>
<td>348,778</td>
<td>68,144</td>
<td>1,999,600</td>
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<tr>
<td>Vice President and General Manager — Gulf Operations</td>
<td>2008</td>
<td>322,231</td>
<td>0</td>
<td>512,947</td>
<td>0</td>
<td>199,200</td>
<td>266,050</td>
<td>101,449</td>
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<tr>
<td>2007</td>
<td>243,062</td>
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<td>328,348</td>
<td>0</td>
<td>176,500</td>
<td>158,814</td>
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<td>947,580</td>
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<tr>
<td>Matthew J. Mulherin</td>
<td>2009</td>
<td>347,115</td>
<td>0</td>
<td>1,051,902</td>
<td>59,061</td>
<td>140,000</td>
<td>273,103</td>
<td>73,385</td>
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<td>Vice President and General Manager — Newport News Operations</td>
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<td>328,040</td>
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<td>552,348</td>
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<td>199,200</td>
<td>216,647</td>
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<tr>
<td>2007</td>
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<td>437,567</td>
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<td>219,500</td>
<td>197,672</td>
<td>75,601</td>
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<tr>
<td>William R. Ermatinger</td>
<td>2009</td>
<td>267,471</td>
<td>0</td>
<td>670,603</td>
<td>0</td>
<td>90,800</td>
<td>309,530</td>
<td>75,247</td>
<td>1,412,871</td>
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<tr>
<td>Vice President and Chief</td>
<td>2008</td>
<td>237,500</td>
<td>0</td>
<td>328,432</td>
<td>0</td>
<td>124,500</td>
<td>256,685</td>
<td>75,263</td>
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<td>Human Resources Officer</td>
<td>2007</td>
<td>220,833</td>
<td>0</td>
<td>250,038</td>
<td>0</td>
<td>158,800</td>
<td>193,120</td>
<td>74,974</td>
<td>897,765</td>
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</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. The maximum grant date value of 2009 stock awards for each NEO is listed below:

   - C. Michael Petters: $1,862,586
   - Barbara A. Niland: $1,150,484
   - Irwin F. Edenzon: $1,314,878
   - Matthew J. Mulherin: $1,314,878
   - William R. Ermatinger: $838,254

3. The amounts in this column include amounts deferred under the savings and nonqualified deferred compensation plans. These amounts were paid under Northrop Grumman’s annual bonus plan during 2010, 2009 and 2008 based on performance achieved during the prior year, as described in the Compensation Discussion and Analysis.

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 2009 amount listed in this column for Mr. Petters includes medical, dental, life and disability premiums ($45,086), company contributions to Northrop Grumman defined contribution plans ($9,800), financial planning/income tax preparation ($10,075), personal liability insurance ($541) and personal and dependent travel including company aircraft ($11,287). Mr. Petters did not receive a car allowance.

The 2009 amount listed in this column for Ms. Niland includes medical, dental, life and disability premiums ($30,125), executive perquisite and car allowance ($20,000), company contributions to Northrop Grumman defined contribution plans ($18,451), personal liability insurance ($500) and financial planning/income tax preparation ($315).
The 2009 amount listed in this column for Mr. Edenzon includes medical, dental, life and disability premiums ($30,491), executive perquisite and car allowance ($20,000), company contributions to Northrop Grumman defined contribution plans ($8,940), personal liability insurance ($500) and personal and dependent travel including company aircraft ($2,396) and tax gross-up on dependent travel first quarter of 2009 ($213).

The 2009 amount listed in this column for Mr. Mulherin includes medical, dental, life and disability premiums ($39,585), executive perquisite and car allowance ($20,000), company contributions to Northrop Grumman defined contribution plans ($9,800), financial planning/income tax preparation ($4,000) and personal liability insurance ($500).

The 2009 amount listed in this column for Mr. Ermatinger includes medical, dental, life and disability premiums ($38,638), executive perquisite and car allowance ($20,000), company contributions to Northrop Grumman defined contribution plans ($15,679), financial planning/income tax preparation ($430) 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.
## 2009 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</th>
<th>Estimated Future Payouts Under Equity Incentive Plan Awards</th>
<th>All Other Grants of Awards</th>
<th>All Other Option Awards</th>
<th>Exercise or Base Price of Option Awards</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Threshold ($)</td>
<td>Target ($)</td>
<td>Maximum ($)</td>
<td>Threshold ($)</td>
<td>Target ($)</td>
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<tr>
<td>C. Michael Petters</td>
<td>Incentive</td>
<td>2/17/09</td>
<td>0</td>
<td>431,250</td>
<td>862,500</td>
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<td>20,700</td>
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<tr>
<td>President and Chief Executive Officer</td>
<td>RPSR</td>
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<tr>
<td>Barbara A. Niland</td>
<td>Incentive</td>
<td>2/17/09</td>
<td>0</td>
<td>130,000</td>
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<td>0</td>
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<tr>
<td>Dominik F. Edmonson</td>
<td>Incentive</td>
<td>2/17/09</td>
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<td>162,000</td>
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<td>Matthew J. Mulherin</td>
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<td>324,000</td>
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<td>Vice President and General Manager — Newport News Operations</td>
<td>RPSR</td>
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<tr>
<td>William R. Ermatinger</td>
<td>Incentive</td>
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<td>111,700</td>
<td>223,400</td>
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<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td>RPSR</td>
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</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 2009, as described in the Compensation Discussion and Analysis. The actual bonus amounts that were paid in 2010 based on 2009 performance are shown in the Summary Compensation Table above in the column titled “Non-Equity Incentive Plan Compensation.”

2. These amounts relate to RPSRs granted in 2009 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. 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, 2009 and ending December 31, 2011. The payout will occur in early 2012 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 2009 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 17 of Northrop Grumman’s 2009 Form 10-K for the fiscal year ended December 31, 2009, adjusted to exclude forfeitures.

### Outstanding Equity Awards at 2009 Year End

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Option Awards</th>
<th>Stock Awards</th>
<th>Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights that Have Not Vested</th>
<th>Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights that Have Not Vested (2)</th>
<th>Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights that Have Not Vested (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Securities Underlying Uncol Exercisable (1)</td>
<td>Number of Securities Underlying Uncol Unearned</td>
<td>Number of Shares or Units of Stock that Have Not Vested</td>
<td>Number of Shares or Units of Stock that Have Not Vested</td>
<td>Number of Shares or Units of Stock that Have Not Vested</td>
</tr>
<tr>
<td></td>
<td>Options (4)</td>
<td>Options (5)</td>
<td>Grant Date</td>
<td>Exercise Price</td>
<td>Option Exercise Date</td>
</tr>
<tr>
<td>C. Michael Peters</td>
<td>0</td>
<td>119,050</td>
<td>0</td>
<td>2/27/08</td>
<td>44.46</td>
</tr>
<tr>
<td>President and Chief Executive Officer</td>
<td>19,850</td>
<td>39,700</td>
<td>0</td>
<td>2/27/08</td>
<td>80.82</td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>18,000</td>
<td>18,000</td>
<td>0</td>
<td>2/28/07</td>
<td>71.45</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>30,000</td>
<td>10,000</td>
<td>0</td>
<td>2/13/08</td>
<td>68.30</td>
</tr>
<tr>
<td>William F. Ermatinger</td>
<td>20,000</td>
<td>0</td>
<td>0</td>
<td>11/18/08</td>
<td>52.43</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
<td>2/19/09</td>
<td>52.49</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>8,000</td>
<td>0</td>
<td>0</td>
<td>2/20/09</td>
<td>57.40</td>
</tr>
<tr>
<td>Christian A. Albrecht</td>
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<td>7,469</td>
<td>0</td>
<td>2/17/09</td>
<td>44.46</td>
</tr>
<tr>
<td>Vice President and General Manager — Gulf Coast</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/27/08</td>
<td>0</td>
</tr>
<tr>
<td>Chief Human Resource Officer</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/28/07</td>
<td>0</td>
</tr>
<tr>
<td>David A. Walker</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/17/09</td>
<td>44.46</td>
</tr>
<tr>
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<td>0</td>
<td>0</td>
<td>2/27/08</td>
<td>0</td>
</tr>
<tr>
<td>Chief Human Resource Officer</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/28/07</td>
<td>0</td>
</tr>
<tr>
<td>Brian A. McLean</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/19/09</td>
<td>52.49</td>
</tr>
<tr>
<td>Vice President and General Manager — Operations</td>
<td>8,000</td>
<td>0</td>
<td>0</td>
<td>2/20/09</td>
<td>57.40</td>
</tr>
<tr>
<td>Chief Human Resource Officer</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/28/07</td>
<td>0</td>
</tr>
<tr>
<td>Peter J. Devine</td>
<td>4,000</td>
<td>4,000</td>
<td>0</td>
<td>2/20/09</td>
<td>57.40</td>
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<tr>
<td>Vice President and General Manager — Operations</td>
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<td>6,213</td>
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<td>2/27/08</td>
<td>57.40</td>
</tr>
<tr>
<td>William R. Ermatinger</td>
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<td>0</td>
<td>0</td>
<td>2/28/07</td>
<td>44.46</td>
</tr>
<tr>
<td>Vice President and General Manager — Operations</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2/28/07</td>
<td>0</td>
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<tr>
<td>William D. O’Neill</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Footnotes:

(1) Options awarded in 2009 and 2008 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) These are target numbers for RPSRs. The first RPSR for each NEO vests based on performance for the three-year cycle ending on December 31, 2011, the second (and third for Mr. Edenzon and Mr. Ermatinger), based on performance for the three-year cycle ending on December 31, 2010 and the last, based on performance for three-year cycle ending on December 31, 2009.
Based on closing price of Northrop Grumman’s stock on December 31, 2009 of $55.85 for target RPSRs plus unvested dividend equivalents on target RPSRs at such time (except that there are no dividend equivalents included for the performance periods ending December 31, 2010 and December 31, 2011). Northrop Grumman pays dividend equivalents on RPSRs that ultimately vest for the performance period ending December 31, 2009 based on actual dividends declared while the award is outstanding. The per-share dividend equivalent amounts based on dividends declared from the grant of an RPSR until the end of 2009 equal $4.74 for performance cycle ending December 31, 2009.

**2009 Option Exercises and Stock Vested**

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Number of Shares Acquired on Exercise (0)</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>17,600</td>
<td>0</td>
<td>791,824</td>
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<tr>
<td>President and Chief Executive Officer</td>
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<tr>
<td>Barbara A. Niland</td>
<td>0</td>
<td>4,400</td>
<td>0</td>
<td>197,956</td>
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<tr>
<td>Vice President and Chief Financial Officer</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>0</td>
<td>3,520</td>
<td>0</td>
<td>158,365</td>
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<tr>
<td>Vice President and General Manager — Gulf Coast Operations</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Matthew J. Mulherin</td>
<td>0</td>
<td>5,720</td>
<td>0</td>
<td>257,343</td>
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<tr>
<td>Vice President and General Manager — Newport News Organization</td>
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<td></td>
<td></td>
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<tr>
<td>William R. Ermatinger</td>
<td>0</td>
<td>3,036</td>
<td>0</td>
<td>136,590</td>
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<tr>
<td>Vice President and Chief Human Resources Officer</td>
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</tbody>
</table>

**Footnote:**

(*) All shares in this column are RPSRs.

**2009 Pension Benefits**

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Plan Name</th>
<th>Number of Years Credited Service (0)</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>5.17**</td>
<td>1,328,369</td>
<td>0</td>
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<tr>
<td>President and Chief Executive Officer</td>
<td></td>
<td>NNS Restoration</td>
<td>21.50</td>
<td>1,871,122</td>
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<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>21.50</td>
<td>426,153</td>
<td>0</td>
</tr>
<tr>
<td>Barbara A. Niland</td>
<td>OSERP</td>
<td>31.00</td>
<td>1,608,056</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and Chief Financial Officer</td>
<td></td>
<td>NNS Restoration</td>
<td>21.50</td>
<td>426,153</td>
</tr>
<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>21.50</td>
<td>426,153</td>
<td>0</td>
</tr>
<tr>
<td>Irwin F. Edenzon</td>
<td>OSERP</td>
<td>20.00</td>
<td>978,229</td>
<td>0</td>
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<tr>
<td>Vice President and General Manager — Gulf Coast Operations</td>
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<td>NNS Restoration</td>
<td>12.17</td>
<td>351,201</td>
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<td></td>
<td>NNS Salaried Pension Plan</td>
<td>12.17</td>
<td>370,992</td>
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<tr>
<td>Matthew J. Mulherin</td>
<td>OSERP</td>
<td>29.00</td>
<td>704,697</td>
<td>0</td>
</tr>
<tr>
<td>Vice President and General Manager — Newport News Operations</td>
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<td>NNS Restoration</td>
<td>27.50</td>
<td>760,464</td>
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<tr>
<td></td>
<td>NNS Salaried Pension Plan</td>
<td>27.50</td>
<td>472,804</td>
<td>0</td>
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<tr>
<td>William R. Ermatinger</td>
<td>OSERP</td>
<td>22.58</td>
<td>772,555</td>
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<tr>
<td>Vice President and Chief Human Resources Officer</td>
<td></td>
<td>ERIISA 2</td>
<td>6.50</td>
<td>87,505</td>
</tr>
<tr>
<td></td>
<td>ES Executive Pension Plan</td>
<td>22.55</td>
<td>248,885</td>
<td>0</td>
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<td></td>
<td>Northrop Grumman Pension Plan</td>
<td>22.55</td>
<td>293,505</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 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, 2009. 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).

**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, 2009, and include any supplemental payments. Cash balance type benefits are based on the account balance as of December 31, 2009, plus a future interest credit, converted to an annuity using the applicable conversion factors.

Ms. Niland and Mr. Ermatinger participate in the Northrop Grumman Pension Plan (“NGPP”), the Northrop Grumman Electronic Systems Executive Pension Plan (“ES EPP”), and the Northrop Grumman Supplemental Plan 2 (“ERISA 2”). Mr. Petters, Mr. Edenzon and Mr. Mulherin participate in the Newport News Shipbuilding, Inc. Retirement Plan (“NNS Plan”) and the Newport News Shipbuilding, Inc. Retirement Benefit Restoration Plan (“NNS Restoration Plan”). Ms, Niland, Mr. Edenzon, Mr. Mulherin and Mr. Ermatinger also participate in the Officers Supplemental Executive Retirement Program (“OSERP”). Mr. Petters participates in the CPC Supplemental Executive Retirement Program (“CPC SERP”).

The change in pension values shown in the Summary Compensation Table includes the effect of:

- an additional year of service from December 31, 2008 to December 31, 2009;
- 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):

**Part B**
5-Year Transition Benefit
Benefit based on a formula similar to the one under the historical plan formula during the transition period

**Part A**
Benefit under the historical plan formula before the transition period

or

**Part C**
5-Year Transition Benefit
Benefit under the cash balance formula during the transition period

**Part D**
Benefit under the cash balance formula after the transition period

\[ \text{Pension Benefit} = \text{Part A} + \text{or} \text{ if greater} + \text{Part D} \]

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. 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.

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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</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>All Eligible Pay</td>
</tr>
<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>
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<tr>
<td>55 to 64</td>
<td>8.0%</td>
<td>6.0%</td>
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<tr>
<td>65 to 74</td>
<td>8.5%</td>
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<tr>
<td>75 to 84</td>
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</tr>
<tr>
<td>Over 84</td>
<td>9.5%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Table 2 (New Formula)

<table>
<thead>
<tr>
<th>Points (attained age and total service)</th>
<th>Credit Amount</th>
<th>Eligible Pay in Excess of Social Security</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>All Eligible Pay</td>
</tr>
<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>
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<td>45 to 54</td>
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<td>65 to 74</td>
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<td>75 to 84</td>
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<td>4.0%</td>
</tr>
<tr>
<td>Over 84</td>
<td>9.0%</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

- **Vesting.** As of December 31, 2009, 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 NNS Plan 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.

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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**

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 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), 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), the associated ERISA 2 and the ES EPP, 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 6.25% as of December 31, 2008 and 6.00% as of December 31, 2009 (6.25% for the NNS Plan).

Mortality Table: As was used for financial reporting purposes, RP-2000 projected nine years without collar adjustment as of December 31, 2008 and RP-2000 projected ten years without collar adjustment as of December 31, 2009.

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 4.50% as of December 31, 2008 and 4.37% as of December 31, 2009. 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, 2009 was $150,783.36.
## 2009 Nonqualified Deferred Compensation Plan

<table>
<thead>
<tr>
<th>Name &amp; Principal Position</th>
<th>Plan Name</th>
<th>2009 Nonqualified Deferred Compensation</th>
<th>Aggregate Earnings in Last FY (3) ($)</th>
<th>Aggregate Withdrawals/Distributions ($)</th>
<th>Aggregate Balance at Last FYE (4) ($)</th>
</tr>
</thead>
</table>
| C. Michael Petters
   President and Chief
   Executive Officer | Deferred Compensation Savings Excess | 0 | 0 | 390,087 | 0 | 2,289,621 |
| Barbara A. Niland
   Vice President and Chief
   Financial Officer | Deferred Compensation Savings Excess | 60,354 | 9,752 | 7,104 | 0 | 244,128 |
| Irwin F. Edenzon
   Vice President and General Manager — Gulf Coast
   Compensation Savings Excess | Deferred Compensation Savings Excess | 0 | 0 | 59,958 | 0 | 164,169 |
| Matthew J. Mulherin
   Vice President and General Manager — Newport News Operations | Deferred Compensation Savings Excess | 0 | 0 | 19,171 | 0 | 100,096 |
| William R. Ermatinger
   Vice President and Chief
   Human Resources Officer | Deferred Compensation Savings Excess | 20,576 | 5,879 | 15,536 | 0 | 95,147 |

**Footnotes:**

1. Executive contributions in this column also are included in the salary and non-equity incentive plan columns of the 2009 Summary Compensation Table.

2. Northrop Grumman contributions in this column are included under the All Other Compensation column in the 2009 Summary Compensation Table.

3. Aggregate earnings in the last fiscal year are not included in the 2009 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 $197,619 in employee contributions, as adjusted for investment returns.

Mr. Edenzon’s Savings Excess Plan (“SEP”) account balance consists of $84,350 in employee contributions, as adjusted for investment returns.

Mr. Mulherin’s SEP account balance consists of $2,012 in employee contributions, as adjusted for investment returns.

Mr. Ermatinger’s Savings Excess Plan (“SEP”) account balance consists of $70,446 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>
</tbody>
</table>

**Distributions**

- **At Termination of Employment**
  - Based on advance election, payment made in lump sum or installments over period of up to 15 years.
  - Based on advance election, payment made in lump sum or installments over a 5, 10, or 15-year period.

- **Scheduled In-Service Distribution**
  - Not available
  - Available with advance election. Payment made in lump sum or installments over 2-5 years.

- **Non-Scheduled In-Service Distribution**
  - Not available
  - Up to 90% of the pre-2005 account balance may be distributed. A 10% forfeiture penalty will apply.

- **Hardship Withdrawals**
  - Not available
  - Available

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.

### 2009 Change-in-Control and Severance

In March 2009, the Northrop Grumman Compensation Committee amended the Northrop Grumman Severance Plan effective October 1, 2009 to reduce the level of severance benefits for our President from two times to one and one-half times base salary and bonus, and to calculate the annual bonus component of each participant’s cash severance payment using the participant’s target annual bonus instead of using the greater of the participant’s target annual bonus or the average annual bonus earned for the most recent three fiscal years prior to termination of employment.

The first set of tables below provides estimated payments and benefits that Northrop Grumman would have provided each NEO if his employment had terminated on December 31, 2009 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 summarize 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.

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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 receive: (i) a lump sum severance benefit equal to one times base salary, and target bonus, except our President who would receive 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 is 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 provide for accelerated vesting if an NEO terminates 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 provide for accelerated vesting of stock options and RSRs (and for prorated payment in the case of RPSRs) in the event that the NEO is 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 at Northrop Grumman as of December 31, 2010. Northrop Grumman has entered into change-in-control severance agreements (the “Special Agreements”) with Mr. Petters. He is entitled to severance benefits under his agreement only upon a qualifying termination that occurs 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 occurs if the NEO’s employment is terminated by Northrop Grumman for reasons other than “Cause” or the NEO terminates employment for specified “Good Reason” during the two-year period following the change in control.
## Termination Payment Tables

Termination Payments  
C. Michael Petters  
President and Chief Executive Officer

<table>
<thead>
<tr>
<th>Benefits and Perquisites</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>$ 862,500</td>
<td>$ 1,725,000</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>$ 0</td>
<td>$ 646,875</td>
<td>$ 1,293,750</td>
<td>$ 0</td>
</tr>
<tr>
<td>Long-term Incentives (1)</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 2,860,406</td>
<td>$ 1,998,484</td>
</tr>
<tr>
<td>Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incremental Pension</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 791,164</td>
<td>$ 0</td>
</tr>
<tr>
<td>Retiree Medical and Life Insurance</td>
<td>$397,506</td>
<td>$ 397,506</td>
<td>$ 397,506</td>
<td>$ 397,506</td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
<td>$ 0</td>
<td>$ 50,058</td>
<td>$ 100,116</td>
<td>$ 0</td>
</tr>
<tr>
<td>Life Insurance Coverage</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 18,009</td>
<td>$ 0</td>
</tr>
<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>$ 86,250</td>
<td>$ 86,250</td>
<td>$ 0</td>
</tr>
<tr>
<td>28G Tax Gross-up</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 1,827,711</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.

## Termination Payments  
Barbara A. Niland  
Vice President and Chief Financial Officer

<table>
<thead>
<tr>
<th>Benefits and Perquisites</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>$ 325,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>$ 0</td>
<td>$ 130,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Long-term Incentives (1)</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 469,363</td>
<td>$ 469,363</td>
</tr>
<tr>
<td>Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incremental Pension</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Retiree Medical and Life Insurance</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Medical/Dental Continuation</td>
<td>$ 0</td>
<td>$ 24,277</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Life Insurance Coverage</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Car Allowance</td>
<td>$ 0</td>
<td>$ 13,000</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>$ 48,750</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>28G Tax Gross-up</td>
<td>$ 0</td>
<td>$ 0</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.
## Termination Payments
Irwin F. Edenzon  
Vice President and General Manager — Gulf Coast Operations

### Benefits and Perquisites

<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>$ 360,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>$ 0</td>
<td>$ 162,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Long-term Incentives (1)</td>
<td>$514,664</td>
<td>$514,664</td>
<td>$568,740</td>
<td>$514,664</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.

---

## Termination Payments
Matthew J. Mulherin  
Vice President and General Manager — Newport News Operations

### Benefits and Perquisites

<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>$ 360,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>$ 0</td>
<td>$ 162,000</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Long-term Incentives (1)</td>
<td>$514,664</td>
<td>$514,664</td>
<td>$568,740</td>
<td>$514,664</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>
<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>$ 279,250</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
<tr>
<td>Short-term Incentives</td>
<td>$ 0</td>
<td>$ 111,700</td>
<td>$ 0</td>
<td>$ 0</td>
</tr>
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<td>Long-term Incentives (1)</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.
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, 2009. The value of the accelerated vesting was computed using the closing market price of Northrop Grumman’s common stock on December 31, 2009 ($55.85). The value for unvested RPSRs is computed by multiplying $55.85 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 $55.85. No value was attributed to accelerated vesting of a stock option if its exercise price was greater than $55.85.

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<tr>
<th>Name and Principal Position</th>
<th>Stock Options Acceleration of Vesting ($)</th>
<th>RSRs Acceleration of Vesting ($)</th>
<th>RPSRs Prorated Payment ($)</th>
<th>Total ($)</th>
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<td>Barbara A. Niland</td>
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<tr>
<td>Irwin F. Edenzon</td>
<td>$ 81,113</td>
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<td>$ 487,627</td>
<td>$ 568,740</td>
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<td>Vice President and General Manager — Gulf Coast Operations</td>
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<tr>
<td>Matthew J. Mulherin</td>
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<tr>
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<tr>
<td>William R. Ermatinger</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 311,475</td>
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</tr>
<tr>
<td>Vice President and Human Resources Officer</td>
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</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 the assets of, and the liabilities associated with, our respective businesses. 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 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.

**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 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. While 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. Under the Tax Matters Agreement, Northrop Grumman will indemnify us for any portion of such taxes that we pay, subject to our obligation for audit adjustments, described below.

- Northrop Grumman will be responsible for our state, local and foreign income taxes for periods before the spin-off, subject to our obligation for audit adjustments, described below.

- We will generally be obligated to indemnify Northrop Grumman for audit adjustments that increase our federal, state, local or foreign taxable income for periods before the spin-off so as to increase tax liability by more than a total of $5,000,000.

- Northrop Grumman will generally 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.

- 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 wind 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.

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• 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 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 reasonably acceptable 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 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 % 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 has approved and adopted 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 $120,000 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 (other than solely as a result of being a director or a less-than-10% beneficial owner of another entity). A copy of the policy is available on our website (www. .com).

The policy provides 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 materiality of the proposed related person transaction, the actual or perceived conflict of interest between us and the related person, the applicable state corporation and fiduciary obligation laws and rules, disclosure standards, our Corporate Governance Guidelines and code of conduct, and the best interests of us and our stockholders. In addition, the board has delegated authority to the Chair of the Governance Committee to pre-approve or ratify transactions where the aggregate amount involved is expected to be less than $1 million. A summary of any new transactions pre-approved by the Chair is provided to the full Governance Committee for its review in connection with each regularly scheduled Governance Committee meeting.

The Governance Committee has considered and adopted 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 the officer’s compensation is either reported in the Proxy Statement or 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 reported in the Proxy Statement; (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 greater of $1 million or 2% of the charitable entity’s total annual receipts; (e) transactions where all stockholders receive proportional benefits; (f) transactions involving competitive bids; (g) regulated transactions; and (h) certain banking-related services.

At each regularly scheduled meeting of the Governance Committee, a summary of new transactions covered by the standing pre-approvals described above is provided to the Governance Committee for its review.

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 Corporate Secretary of changes in that information. Based on that information, the Office of the Corporate Secretary maintains 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.”

It is anticipated that, prior to the completion of the spin-off, HII will (i) incur the HII Debt (in an amount of $ , at an interest rate of  %, maturing on , with interest payable on , principal payable on and with certain covenants including restrictions on ), the proceeds of which are expected to be used to fund the Contribution and for general corporate purposes and (ii) enter into the HII Credit Facility with third-party lenders (in an amount of $ , comprising a $ term loan with interest payable on and principal payable on , and a $ revolving credit facility, both with a term of , and with certain covenants including restrictions on ).

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.

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 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.

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 of 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.

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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 \( \text{[date]} \), giving effect to a distribution ratio of one share of our common stock for every 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 or entity.

Immediately following the spin-off, we estimate that \( \text{[number]} \) 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 \( \text{[date]} \), the record date.

Stock Ownership of Certain Beneficial Owners

We anticipate, based on information to our knowledge as of \( \text{[date]} \), that the following entities will beneficially own more than 5% of our common stock after the spin-off.

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<th>Amount and Nature of Beneficial Ownership</th>
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<td></td>
<td>(a)</td>
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<tr>
<td></td>
<td>(b)</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>(c)</td>
<td>%</td>
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</table>

(a)

(b)

(c)
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<tr>
<td>Directors and Executive Officers as a Group ( persons)</td>
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(1)  
(2)  

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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 Northrop Grumman, as sole stockholder, will approve and adopt the Restated Bylaws. Under the Restated Certificate of Incorporation, authorized capital stock will consist of shares of our common stock, par value $1.00 per share, and shares of our preferred stock, par value $1.00 per share.

Common Stock

Immediately following the spin-off, we estimate that 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 , 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 classes or 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."

The particular terms of any series of our preferred stock offered will be described by the certificate of designation related to such series. Terms which could be included on a certificate of designation include:

- the number of shares constituting that series and the distinctive designation of that series;
- the price at which our preferred stock will be issued;
- the rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation;
- the dividend rate on the shares of that series, whether dividends shall be cumulative and, if so, from which date or dates;
- whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;
- whether a sinking fund shall be provided for the redemption or purchase of shares of such series and, if so, the terms and the amount of such sinking fund;
- whether that series shall have conversion privileges and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events that our board of directors shall determine;
- whether that series shall have voting rights, in addition to the voting rights provided by law and, if so, the terms of such voting rights; and
- any other relative rights, preferences and limitations of that series.
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 designation. 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.** The Restated Certificate of Incorporation and the Restated Bylaws provide that 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 exact number of directors will be fixed from time to time 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, even though less than a quorum of the board of directors.

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 such directorships 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 by the chairman of the board of directors or the chief executive officer with the concurrence of a majority 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 notice of 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 nor more than 120 days prior to the one-year anniversary of the date of the preceding year’s annual meeting of stockholders; provided, however, that if the annual meeting is convened more than 30 days prior to or delayed by more than 70 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 received not earlier than the close of business on the 120th day prior to such special meeting or later than the close of business on the later of (x) the 90th 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. 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 by more than 50% of its previous size 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 90 days prior to the first anniversary of the preceding year’s annual meeting, 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 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 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.

Stockholder Meetings. The Restated Bylaws provide that our board of directors may adopt, and the chairperson of a meeting may prescribe, rules and procedures for the conduct of stockholder meetings and specify the types of rules or procedures that may be adopted (including 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 acquirer 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 66 2/3% 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 .

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, to the fullest extent permitted by the DGCL as the same exists or may hereafter be amended, 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. Based on the DGCL as presently in effect, a director of our company will not be personally 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 transactions from which the director derived an improper personal benefit.

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 and Officers. The Restated Bylaws provide that we will indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may thereafter be amended, any person (an “Indemnitee”) who was or is made or is threatened to be made a party or is otherwise involved in any action, suit, arbitration, alternative dispute mechanism, inquiry, judicial, administrative or legislative hearing, investigation or any other threatened, pending or completed proceeding, whether of a civil, criminal, administrative, investigative or other nature (a “proceeding”), by reason of the fact that he or she is or was a director or an officer of our company or while a director or officer of our company is or was serving at the request 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 employee benefit plans, against all liability and loss suffered and expenses (including attorneys’ fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement by or on behalf of the Indemnitee) actually and reasonably incurred 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 the commencement of such proceeding, or part thereof, by the Indemnitee was authorized or ratified by our board of directors.

The Restated Bylaws further provide that we will pay the expenses (including attorneys’ fees) incurred by an Indemnitee in defending any proceeding in advance of its final disposition, provided however, that such payment of expenses in advance of the final disposition of the proceeding will be made only upon receipt of an undertaking by the Indemnitee to repay all amounts advanced if it should be ultimately determined 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 rights to indemnification and to the advancement of expenses to any of our employees or agents to the fullest extent of the provisions of the Restated Bylaws.
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 maintain an Internet site at www. .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.

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# INDEX TO INTERIM FINANCIAL STATEMENTS

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<tr>
<td>16. RELATED PARTY TRANSACTIONS AND PARENT COMPANY EQUITY</td>
<td>F-18</td>
</tr>
</tbody>
</table>

F-3
NORTHROP GRUMMAN SHIPBUILDING
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Nine Months Ended September 30</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Sales and Service Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product sales</td>
<td>$4,327</td>
<td>$3,673</td>
</tr>
<tr>
<td>Service revenues</td>
<td>660</td>
<td>937</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>4,987</td>
<td>4,610</td>
</tr>
<tr>
<td>Cost of Sales and Service Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of product sales</td>
<td>$3,842</td>
<td>$3,230</td>
</tr>
<tr>
<td>Cost of service revenues</td>
<td>528</td>
<td>788</td>
</tr>
<tr>
<td>Corporate home office and other general and administrative costs</td>
<td>473</td>
<td>446</td>
</tr>
<tr>
<td>Operating income</td>
<td>144</td>
<td>146</td>
</tr>
<tr>
<td>Other expense</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(30)</td>
<td>(33)</td>
</tr>
<tr>
<td>Earnings before income taxes</td>
<td>114</td>
<td>113</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>42</td>
<td>32</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$72</td>
<td>$81</td>
</tr>
<tr>
<td>Net earnings from above</td>
<td>$72</td>
<td>$81</td>
</tr>
</tbody>
</table>

Other comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in unamortized benefit plan costs</td>
<td>37</td>
<td>46</td>
</tr>
<tr>
<td>Tax expense on the change in unamortized benefit plan costs</td>
<td>(4)</td>
<td>(18)</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td>$108</td>
<td>$109</td>
</tr>
</tbody>
</table>

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

F-4
## Condensed Consolidated Statements of Financial Position

(Northrop Grumman Shipbuilding)

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>September 30</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>$ 755</td>
<td>$ 537</td>
</tr>
<tr>
<td>Inventoried costs, net</td>
<td>295</td>
<td>298</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>293</td>
<td>291</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>Total current assets</td>
<td>1,365</td>
<td>1,136</td>
</tr>
<tr>
<td>Property, plant, and equipment, net</td>
<td>1,929</td>
<td>1,977</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>1,134</td>
<td>1,134</td>
</tr>
<tr>
<td>Other purchased intangibles, net of accumulated amortization of $348 in 2010 and $329 in 2009</td>
<td>591</td>
<td>610</td>
</tr>
<tr>
<td>Pension plan asset</td>
<td>110</td>
<td>116</td>
</tr>
<tr>
<td>Miscellaneous other assets</td>
<td>56</td>
<td>28</td>
</tr>
<tr>
<td>Total other assets</td>
<td>1,891</td>
<td>1,888</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 5,185</td>
<td>$ 5,001</td>
</tr>
</tbody>
</table>

| **Liabilities and Parent's Equity In Unit** |             |             |
| **Current Liabilities** |             |             |
| Contribution payable to parent |             |             |
| Notes payable to parent | $ 537 | $ 537 |
| Trade accounts payable | 218 | 314 |
| Current portion of workers’ compensation liabilities | 256 | 255 |
| Accrued interest on notes payable to parent | 232 | 212 |
| Current portion of post-retirement plan liabilities | 175 | 175 |
| Accrued employees’ compensation | 186 | 173 |
| Provision for contract losses | 102 | 53 |
| Advance payments and billings in excess of costs incurred | 80 | 81 |
| Other current liabilities | 218 | 132 |
| Total current liabilities | 2,004 | 1,932 |
| Long-term debt | 283 | 283 |
| Other post-retirement plan liabilities | 512 | 502 |
| Pension plan liabilities | 406 | 379 |
| Workers’ compensation liabilities | 267 | 265 |
| Deferred tax liabilities | 152 | 121 |
| Other long-term liabilities | 74 | 82 |
| **Total liabilities** | 3,698 | 3,564 |

| **Commitments and Contingencies (Note 11)** |             |             |
| **Equity** |             |             |
| Common stock |             |             |
| Additional paid-in capital |             |             |
| Parent’s equity in unit | 1,985 | 1,968 |
| Accumulated other comprehensive loss | (498) | (531) |
| **Total parent’s equity in unit** | 1,487 | 1,437 |
| **Total liabilities and parent’s equity in unit** | $ 5,185 | $ 5,001 |

The accompanying notes are an integral part of these condensed consolidated financial statements.
## NORTHROP GRUMMAN SHIPBUILDING
### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Earnings</td>
<td>$ 72</td>
<td>$ 81</td>
</tr>
<tr>
<td>Adjustments to reconcile to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>124</td>
<td>113</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>19</td>
<td>23</td>
</tr>
<tr>
<td>Loss on disposal of property, plant, and equipment</td>
<td>3</td>
<td>—</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>24</td>
<td>(65)</td>
</tr>
<tr>
<td>Increase in Accounts receivable</td>
<td>(218)</td>
<td>(112)</td>
</tr>
<tr>
<td>Inventoried costs</td>
<td>(10)</td>
<td>(60)</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>3</td>
<td>(7)</td>
</tr>
<tr>
<td>Increase (decrease) in Accounts payable and accruals</td>
<td>79</td>
<td>(109)</td>
</tr>
<tr>
<td>Retiree benefits</td>
<td>79</td>
<td>(71)</td>
</tr>
<tr>
<td>Other non-cash transactions, net</td>
<td>(24)</td>
<td>(2)</td>
</tr>
<tr>
<td>Net cash provided by (used in) operations</td>
<td>151</td>
<td>(209)</td>
</tr>
<tr>
<td><strong>Investing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additions to property, plant, and equipment</td>
<td>(96)</td>
<td>(120)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(96)</td>
<td>(120)</td>
</tr>
<tr>
<td><strong>Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net transfers (to) from parent</td>
<td>(55)</td>
<td>329</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>(55)</td>
<td>329</td>
</tr>
<tr>
<td>Increase (decrease) in cash and cash equivalents</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$ —</td>
<td>$ —</td>
</tr>
<tr>
<td><strong>Supplemental Cash Flow Disclosure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for interest</td>
<td>$ 12</td>
<td>$ 12</td>
</tr>
<tr>
<td><strong>Non-Cash Investing and Financing Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditures accrued in accounts payable</td>
<td>$ 29</td>
<td>$ 21</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these condensed consolidated financial statements.
F-6
## Parent’s Equity in Unit

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>At beginning of year</td>
<td>$1,968</td>
<td>$1,578</td>
</tr>
<tr>
<td>Net earnings</td>
<td>72</td>
<td>81</td>
</tr>
<tr>
<td>Net transfers (to) from parent</td>
<td>(55)</td>
<td>329</td>
</tr>
<tr>
<td>At end of period</td>
<td>1,985</td>
<td>1,988</td>
</tr>
</tbody>
</table>

## Accumulated Other Comprehensive Loss

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>At beginning of year</td>
<td>(531)</td>
<td>(617)</td>
</tr>
<tr>
<td>Other comprehensive income, net of tax</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>At end of period</td>
<td>(498)</td>
<td>(589)</td>
</tr>
<tr>
<td>Total parent’s equity in unit</td>
<td>$1,487</td>
<td>$1,399</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*
1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Northrop Grumman Shipbuilding and its subsidiaries (NGSB or the company), a wholly owned subsidiary of Northrop Grumman Corporation (Northrop Grumman) 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 unaudited condensed 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 unaudited condensed 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 16. Based on management’s estimates of its stand-alone costs for similar corporate functions and services, NGSB believes that its prior cost allocations from Northrop Grumman are substantially consistent with what such costs would be on a stand-alone basis.

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 unaudited condensed consolidated statements of cash flows. The net effect of these transactions is reflected in the parent’s equity in unit in the unaudited condensed consolidated statements of financial position.

The unaudited condensed consolidated financial statements also include certain Northrop Grumman assets and liabilities that are specifically identifiable or otherwise allocable to the company. The NGSB unaudited condensed 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.

The accompanying unaudited condensed consolidated financial statements include all adjustments of normal recurring nature considered necessary by management for a fair presentation of the unaudited condensed consolidated financial position, results of operations, and cash flows. The results reported in these financial statements are not necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto as of December 31, 2009, and 2008, and for each of the three years in the period ended December 31, 2009.

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

Parent’s Equity in Unit — Parent’s Equity in Unit in the unaudited condensed 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 Note 16.

Principles of Consolidation — The unaudited condensed 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 unaudited condensed financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

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 corporate expenses incurred at both the segment and corporate locations 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 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.

Accumulated Other Comprehensive Loss — The accumulated other comprehensive loss as of September 30, 2010, and December 31, 2009, was comprised of unamortized benefit plan costs of $498 million (net of tax benefits of $334 million) and $531 million (net of tax benefit of $338 million), respectively.

Subsequent Events — Management has evaluated subsequent events after the balance sheet date through November 23, 2010, the date the financial statements were available to be issued, for appropriate accounting treatment and disclosure.

2. SHIPBUILDING STRATEGIC ACTIONS

In July 2010, Northrop Grumman announced plans to consolidate NGSB’s Gulf Coast operations by winding down the Avondale, Louisiana facility in 2013 after completing LPD-class ships currently under construction. 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 pre-tax charge to operating income for these contracts. NGSB is currently exploring alternative uses of the Avondale facility by potential new owners, including alternative opportunities for the workforce.

In connection with and as a result of the decision to wind down 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 as of June 30, 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 would be recoverable under 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. The Company is currently in discussions with the customer regarding the FAR compliant cost submission to support the recoverability of these costs and this submission is subject to review and acceptance by the customer. 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. If there is a formal challenge to our treatment of certain restructuring costs, there are prescribed dispute resolution alternatives to resolve such a challenge and we would likely pursue a dispute resolution process. A formal audit of the restructuring proposal by the Defense Contract Audit Agency is in process and must be completed before this matter can be resolved. Should these costs be challenged by the U. S. Navy, it will create uncertainty as to the timing and eventual allowability of the restructuring costs related to the wind down of the Avondale facility. Ultimately, the company anticipates these discussions will result in an agreement with the customer that is substantially in accord with management’s cost recovery expectations. Accordingly, NGSB has treated these costs as allowable costs in determining the cost and earnings performance on its contracts in process.

As a result of the announcement to wind down operations at the Avondale, Louisiana facility and the Gulf Coast segment’s recent operating losses, the company performed an impairment test for each reportable segment’s goodwill and other long-lived assets. 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.

The company also evaluated the effect the winding down of the Avondale facilities might have on the benefit plans in which NGSB employees participate. NGSB determined that the potential impact of a curtailment in these plans was not material to its consolidated financial position, results of operations, or cash flows.

Northrop Grumman also 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 by allowing both Northrop Grumman and NGSB to more effectively
NORTHROP GRUMMAN SHIPBUILDING
pursue their respective opportunities to maximize long-term value. Strategic alternatives for NGSB include, but are not limited to, a spin-off to Northrop Grumman shareholders.

Subsequent Event — In November 2010, in connection with the possible spin-off, NGSB initiated a tender for the $200 million Gulf Opportunity Zone Industrial Revenue Development Bonds (GO Zone IRBs) at par (see Note 11). 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. In addition, $2 million of capitalized debt issuance costs associated with the tendered principal amount was written off in the condensed consolidated statement of operations. The remaining $21.6 million of GO Zone IRBs mature in 2028 and accrue interest at a fixed rate of 4.55% (payable semi-annually).

3. ACCOUNTING STANDARDS UPDATES

Accounting Standards Updates Not Yet Effective

Accounting Standards Updates not effective until after September 30, 2010 are not expected to have a significant effect on the company’s unaudited condensed consolidated financial position or results of operations.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Long-Term Debt — As of September 30, 2010, and December 31, 2009, the carrying value of the long-term debt was $283 million. The related estimated fair values as of September 30, 2010, and December 31, 2009 were $312 million and $285 million. 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.

The carrying amounts of all other financial instruments approximate fair value due to the short-term nature of these items.

5. SEGMENT INFORMATION

The company is aligned into two reportable segments: Gulf Coast and Newport News.

Results of Operations By Segment

<table>
<thead>
<tr>
<th></th>
<th>Nine Months Ended September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Sales and Service Revenues</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>2,300</td>
</tr>
<tr>
<td>Newport News</td>
<td>2,748</td>
</tr>
<tr>
<td>Intersegment eliminations</td>
<td>(61)</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>$4,987</td>
</tr>
<tr>
<td>Operating Income</td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>(71)</td>
</tr>
<tr>
<td>Newport News</td>
<td>250</td>
</tr>
<tr>
<td>Total Segment Operating Income</td>
<td>178</td>
</tr>
<tr>
<td>Non-segment factors affecting operating income</td>
<td></td>
</tr>
<tr>
<td>Net pension and post-retirement benefits adjustment</td>
<td>(34)</td>
</tr>
<tr>
<td>Deferred State Income Taxes</td>
<td>—</td>
</tr>
<tr>
<td>Total operating income</td>
<td>$144</td>
</tr>
</tbody>
</table>

Net Pension and Post-retirement Benefits Adjustment — The net pension and post-retirement benefits adjustment reflects the difference between expenses for pension and post-retirement benefits determined in accordance with GAAP and the expenses for these items included in segment operating income in accordance with CAS.

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
NORTHROP GRUMMAN SHIPBUILDING

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 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, the company completed its 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 upon delivery of the ship, which occurred in the first half of 2009. 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.

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 $145 million in the first nine months of 2009 and $171 million for the full year. In the second quarter of 2010, the company recognized a $113 million charge for impacts to LPDs 23 and 25 as a result of the decision to wind down shipbuilding operations at the Avondale facility (see Note 2). In the third quarter of 2010, the company recorded a charge of $24 million for additional cost growth on LPD 24, which was more than offset in the quarter by recognition of milestone incentives on the total LPD 22-25 contract of approximately $31 million.

7. GOODWILL AND OTHER PURCHASED INTANGIBLE ASSETS

Goodwill

The carrying amounts of goodwill as of September 30, 2010, and December 31, 2009, were as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Gulf Coast</th>
<th>Newport News</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>$ 488</td>
<td>$ 646</td>
<td>$1,134</td>
</tr>
</tbody>
</table>

The company’s accumulated goodwill impairment losses at September 30, 2010, and December 31, 2009, totaled $2,490 million.

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>September 30 2010</th>
<th>December 31 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross carrying amount</td>
<td>$ 939</td>
<td>$ 939</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>(348)</td>
<td>(329)</td>
</tr>
<tr>
<td>Net carrying amount</td>
<td>$ 591</td>
<td>$ 610</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 aircraft carrier programs. Aggregate amortization expense for the nine months ended September 30, 2010, and 2009, was $19 million and $23 million, respectively.

The table below shows expected amortization for purchased intangibles for the remainder of 2010 and for the next five years:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year ending December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010 (October 1- December 31)</td>
</tr>
<tr>
<td></td>
<td>$ 5</td>
</tr>
</tbody>
</table>

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8. INCOME TAXES

In the second quarter of 2010, Northrop Grumman received final approval from the Internal Revenue Service (IRS) and the U.S. Congressional Joint Committee on Taxation of the IRS’ examination of Northrop Grumman’s tax returns for the years 2004 through 2006. As a result of the settlement, the company reduced its liability for uncertain tax positions by approximately $9 million in the second quarter of 2010, which was recorded as a reduction to the company’s provision for income taxes.

The company’s effective tax rates on income from continuing operations were 36.8 percent and 28.3 percent for the nine months ended September 30, 2010 and 2009, respectively. For the nine months ended September 30, 2010, the company’s effective tax rate differs from the statutory federal rate primarily due to the impact of 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, partially offset by manufacturing deductions and the impact of the settlement of the IRS’ examination of Northrop Grumman’s tax returns for the years 2004-2006. For the nine months ended September 30, 2009, the company’s effective tax rate differs from the statutory federal rate primarily due to manufacturing deductions.

The company recognizes accrued interest and penalties related to uncertain tax positions in federal income tax expense. The IRS is currently conducting an examination of Northrop Grumman’s tax returns for the years 2007 through 2009. Open tax years related to state jurisdictions remain subject to examination but are not considered material.

9. 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 investees of $18 million and $6 million in its results of operations for the nine months ended September 30, 2010, and 2009, 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.

10. INVESTIGATIONS, CLAIMS, AND 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
counselling claims and those pertaining to the C4ISR systems. On October 27, 2010, the District Court entered summary judgment for the company on the relator’s hull, mechanical and engineering allegations and continued the trial date to December 1, 2010, to allow the relator and a co-defendant time to finalize a settlement. If the settlement with the co-defendant becomes final, we expect the case against the company will be concluded with the exception of a possible appeal of the District Court’s orders dismissing the allegations against the company. Should the settlement not be concluded, the company will file a motion to be excluded from the December 1, 2010 trial. 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. 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.

11. 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 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 September 30, 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 to support the company’s products and services as described in Note 9. NGSB generally strives to limit its exposure under these arrangements to its investment in the 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 arrangement and, in such cases, generally obtains cross-indemnification from the other members of the arrangement. At September 30, 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 its 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 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
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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.

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 range of reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience 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 September 30, 2010, the probable future costs for environmental remediation sites accrued 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.

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 the company’s self-insured workers’ compensation plans. At September 30, 2010, there were $155 million of stand-by letters of credit and $296 million of surety bonds outstanding related to NGSB.

Northrop Grumman Corporation has also guaranteed a $200 million loan made to NGSB in connection with the GO Zone IRBs issued by the Mississippi Business Finance Corporation in December 2006. Under the guaranty, Northrop Grumman Corporation guaranteed to the Bond Trustee the repayment of all payments due under the trust indenture and loan agreement. In addition Northrop Grumman Systems Corporation (a wholly owned subsidiary of Northrop Grumman) has guaranteed NGSB’s outstanding $84 million Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project), Taxable Series 199A.

U.S. Government Claims — From time to time, the U.S. Government advises 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. 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 for the nine months ended September 30, 2010, and 2009, was $31 million and $30 million, respectively. These amounts are net of immaterial amounts of sublease rental income.

12. IMPACTS FROM HURRICANES

In 2008, a subcontractor’s operations in Texas were severely impacted by Hurricane Ike. 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, NGSB’s operating income was reduced by approximately $23 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 Hurricane 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 has recovered a portion of its Hurricane Katrina claim, including $62 million in recovery of lost profits, which was recorded as a reduction of cost of product sales in 2007. 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 13).

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, in accordance with company policy 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 Hurricane Katrina claim, no receivables for insurance recoveries from FM Global have been recognized by the company in the accompanying condensed consolidated financial statements.

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 government customer would benefit from a portion of insurance recoveries in excess of the net book value of damaged assets and clean-up and restoration costs paid by the company. When such insurance recoveries occur, the company is obligated to return 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 are recoverable under its insurance coverage and the amounts in question 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 would 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 will be able to successfully resolve this matter with no material adverse impact to the company’s financial position or results of operations.

13. HURRICANE KATRINA INSURANCE RECOVERIES

Through and as part of Northrop Grumman, 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 Hurricane Katrina (see Note 12). 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 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 the company 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

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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 if it so chooses. 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. The company intends to continue to pursue the breach of contract action against FM Global and will consider whether to bring a separate action against Aon in state court. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of this matter. However, if the company by and through Northrop Grumman is successful in its claim, the potential impact to its 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. (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 subsequently 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 company believes 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 it would be entitled to the remaining $19 million owed for covered losses and it would have no further obligations to Munich Re. Any payments to be made to NGRMI in connection with this matter would be for the benefit of the company and any reimbursement to be made to Munich Re would be made by the company.

14. 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 plan, 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.

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 Newport News 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 $27 million as of September 30, 2010.
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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 future costs of providing health care benefits to its employees beginning in 2013 and beyond. 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 8). 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 is shown in the following table:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Nine Months Ended September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pension Benefits</td>
</tr>
<tr>
<td></td>
<td>2010</td>
</tr>
<tr>
<td>Components of Net Periodic Benefit Cost</td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$ 95</td>
</tr>
<tr>
<td>Interest cost</td>
<td>136</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(175)</td>
</tr>
<tr>
<td>Amortization of</td>
<td></td>
</tr>
<tr>
<td>Prior service cost (credit)</td>
<td>10</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>28</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$ 94</td>
</tr>
</tbody>
</table>

Employer Contributions — Northrop Grumman’s required minimum funding level for 2010 on the company’s behalf is approximately $2 million for its pension plans and approximately $37 million for its other post-retirement benefit plans. For the nine months ended September 30, 2010, contributions of $24 million and $30 million have been made to the company’s pension plans and its other post-retirement benefit plans, respectively.

15. STOCK COMPENSATION PLANS

Plan Descriptions

The company participates in certain of Northrop Grumman’s stock-based award plans. At September 30, 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.

Compensation Expense

Total stock-based compensation allocated to NGSB by Northrop Grumman for the value of the awards granted to company employees for the nine months ended September 30, 2010, and 2009, was $11 million and $8 million, respectively, of which $1 million related to stock options as of each period end and $10 million and $7 million, related to stock awards, respectively. Tax benefits recognized in the unaudited condensed consolidated statements of operations for stock-based compensation during each of the nine months ended September 30, 2010 and 2009, was $4 million and $3 million, respectively. Shares issued to satisfy stock-based compensation awards are recorded by Northrop Grumman and, accordingly, are not reflected in NGSB’s consolidated financial statements.

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 nine months ended September 30, 2010, and 2009, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield</td>
<td>2.9%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Volatility rate</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Risk-free interest rate</td>
<td>2.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Expected option life (years)</td>
<td>6</td>
<td>5 &amp; 6</td>
</tr>
</tbody>
</table>

The weighted-average grant date fair value of Northrop Grumman’s stock options granted during the nine months ended September 30, 2010, and 2009, was $11 and $7, per share, respectively.

The total intrinsic value of options exercised during the nine months ended September 30, 2010, and 2009, was $1 million and zero, respectively. Intrinsic value is measured using the fair market value at the date of exercise (for options exercised) or at September 30 for the applicable year (for outstanding options), less the applicable exercise price.

Stock Awards

Compensation expense for stock awards is measured at the grant date based on fair value and recognized over the vesting period. The fair value of performance-based stock awards is determined based on the closing market price of Northrop Grumman’s common stock on the grant date. The fair value of market-based stock awards is determined at the grant date using a Monte Carlo simulation model. 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. During the nine months ended September 30, 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 nine months ended September 30, 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. There were 272,000 and 279,000 stock award shares granted to company employees for the nine months ended September 30, 2010, and 2009, respectively, with a weighted-average grant date fair value of $60 and $45 per share, respectively.

Unrecognized Compensation Expense

At September 30, 2010, there was $23 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 $21 million related to stock awards. These amounts are expected to be charged to expense over a weighted-average period of 1.4 years.

16. 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. 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, risk management, internal audit, finance, tax, legal, executive office and other administrative support. Human resources, employee benefits administration, treasury and 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 unaudited condensed consolidated financial statements include Northrop Grumman management and support services allocations totaling $84 million and $62 million for the nine months ended September 30, 2010, and 2009, 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 unaudited condensed consolidated statement of operations reflects shared services and infrastructure costs allocations totaling $242 million and $236 million for the nine months ended September 30, 2010, and 2009, 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. 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 unaudited condensed consolidated financial statements include Northrop Grumman-provided benefits allocations totaling $544 million and $504 million for the nine months ended September 30, 2010, and 2009, 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 certain products and services from other Northrop Grumman businesses. Purchases of products and services from these affiliated entities, which were recorded at cost, were $70 million and $79 million for the nine months ended September 30, 2010 and 2009, respectively. Sales of products and services to these entities were $9 million and $7 million for the nine months ended September 30, 2010, and 2009, respectively. No intercompany trade receivables or payables were outstanding as of September 30, 2010 and December 31, 2009.

**Notes Payable to Parent**

The company had $537 million of promissory notes outstanding with Northrop Grumman that were issued in conjunction with Northrop Grumman’s purchase of Newport News Shipbuilding in 2001. The notes accrue interest quarterly at five percent per annum, no periodic payments related to the notes are required, and both the principal and accrued interest are due on demand. Accrued and unpaid interest totaled $232 million and $212 million as of September 30, 2010 and December 31, 2009, respectively. Intercompany interest expense of $20 million for each of the nine month periods ended September 30, 2010, and 2009 is included in interest expense in the unaudited condensed consolidated statements of operations.

**Parent’s Equity in Unit**

Intercompany transactions between NGSB and Northrop Grumman have been included in the 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 position.
# Northrop Grumman Shipbuilding
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</tr>
</tbody>
</table>
NORTHROP GRUMMAN SHIPBUILDING

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2009 and 2008, and the related consolidated statements of operations, changes in parent’s equity in unit and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedule listed in the Index at page F-1. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

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
July 30, 2010
(September 2, 2010 as to Notes 1, 4, 8, and 20)

F-22
NORTHROP GRUMMAN SHIPBUILDING
CONSOLIDATED STATEMENTS OF OPERATIONS

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<th>$ in millions</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Service Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product sales</td>
<td>$5,046</td>
<td>$5,207</td>
<td>$4,910</td>
</tr>
<tr>
<td>Service revenues</td>
<td>1,246</td>
<td>982</td>
<td>782</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>6,292</td>
<td>6,189</td>
<td>5,692</td>
</tr>
<tr>
<td>Cost of Sales and Service Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of product sales</td>
<td>4,415</td>
<td>4,672</td>
<td>3,992</td>
</tr>
<tr>
<td>Cost of service revenues</td>
<td>1,027</td>
<td>817</td>
<td>612</td>
</tr>
<tr>
<td>Corporate home office and other general and administrative costs</td>
<td>639</td>
<td>564</td>
<td>641</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td></td>
<td></td>
<td>2,490</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>211</td>
<td>(2,354)</td>
<td>447</td>
</tr>
<tr>
<td>Other (expense) income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(36)</td>
<td>(40)</td>
<td>(42)</td>
</tr>
<tr>
<td>Other, net</td>
<td>1</td>
<td>—</td>
<td>6</td>
</tr>
<tr>
<td>Earnings (loss) before income taxes</td>
<td>176</td>
<td>(2,394)</td>
<td>411</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>52</td>
<td>26</td>
<td>135</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>$124</td>
<td>$(2,420)</td>
<td>$276</td>
</tr>
<tr>
<td>Net earnings (loss) from above</td>
<td>$124</td>
<td>$(2,420)</td>
<td>$276</td>
</tr>
<tr>
<td>Other comprehensive income (loss)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in unamortized benefit plan costs</td>
<td>142</td>
<td>(677)</td>
<td>201</td>
</tr>
<tr>
<td>Tax (expense) benefit on change in unamortized benefit plan costs</td>
<td>(56)</td>
<td>264</td>
<td>(78)</td>
</tr>
<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>86</td>
<td>(413)</td>
<td>123</td>
</tr>
<tr>
<td>Comprehensive income (loss)</td>
<td>$210</td>
<td>$(2,833)</td>
<td>$399</td>
</tr>
</tbody>
</table>

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

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## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

### $ in millions

#### December 31

<table>
<thead>
<tr>
<th>Assets</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>$ 537</td>
<td>$ 481</td>
</tr>
<tr>
<td>Inventoried costs, net</td>
<td>298</td>
<td>197</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>291</td>
<td>208</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,136</td>
<td>895</td>
</tr>
<tr>
<td><strong>Property, Plant, and Equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and land improvements</td>
<td>287</td>
<td>264</td>
</tr>
<tr>
<td>Buildings and leasehold improvements</td>
<td>1,296</td>
<td>1,219</td>
</tr>
<tr>
<td>Machinery and other equipment</td>
<td>1,104</td>
<td>1,096</td>
</tr>
<tr>
<td>Capitalized software costs</td>
<td>160</td>
<td>99</td>
</tr>
<tr>
<td><strong>Property, plant, and equipment, net</strong></td>
<td>2,847</td>
<td>2,678</td>
</tr>
<tr>
<td>Accumulated depreciation and amortization</td>
<td>(870)</td>
<td>(727)</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>1,134</td>
<td>1,134</td>
</tr>
<tr>
<td>Other purchased intangibles, net of accumulated amortization of $329 in 2009 and $299 in 2008</td>
<td>610</td>
<td>640</td>
</tr>
<tr>
<td>Pension plan asset</td>
<td>116</td>
<td>119</td>
</tr>
<tr>
<td>Miscellaneous other assets</td>
<td>28</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total other assets</strong></td>
<td>1,888</td>
<td>1,914</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 5,001</td>
<td>$ 4,760</td>
</tr>
</tbody>
</table>

#### Liabilities and Parent’s Equity In Unit

<table>
<thead>
<tr>
<th>Liabilities and Parent’s Equity In Unit</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable to parent</td>
<td>$ 537</td>
<td>$ 537</td>
</tr>
<tr>
<td>Trade accounts payable</td>
<td>314</td>
<td>321</td>
</tr>
<tr>
<td>Current portion of workers’ compensation liabilities</td>
<td>255</td>
<td>248</td>
</tr>
<tr>
<td>Accrued interest on notes payable to parent</td>
<td>212</td>
<td>185</td>
</tr>
<tr>
<td>Current portion of post-retirement plan liabilities</td>
<td>175</td>
<td>176</td>
</tr>
<tr>
<td>Accrued employees’ compensation</td>
<td>173</td>
<td>171</td>
</tr>
<tr>
<td>Advance payments and billings in excess of costs incurred</td>
<td>81</td>
<td>258</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>185</td>
<td>142</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>1,932</td>
<td>2,038</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>283</td>
<td>283</td>
</tr>
<tr>
<td>Other post-retirement plan liabilities</td>
<td>502</td>
<td>484</td>
</tr>
<tr>
<td>Pension plan liabilities</td>
<td>379</td>
<td>570</td>
</tr>
<tr>
<td>Workers’ compensation liabilities</td>
<td>265</td>
<td>270</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>121</td>
<td>81</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>82</td>
<td>73</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>3,564</td>
<td>3,799</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commitments and Contingencies (Note 13)</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent’s Equity in Unit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent’s equity in unit</td>
<td>1,968</td>
<td>1,578</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(531)</td>
<td>(617)</td>
</tr>
<tr>
<td><strong>Total parent’s equity in unit</strong></td>
<td>1,437</td>
<td>961</td>
</tr>
<tr>
<td><strong>Total liabilities and parent’s equity in unit</strong></td>
<td>$ 5,001</td>
<td>$ 4,760</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these consolidated financial statements.
## NORTHROP GRUMMAN SHIPBUILDING
### CONSOLIDATED STATEMENTS OF CASH FLOWS

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
</table>

### Operating Activities
- **Net Earnings (Loss)**: $124, $(2,420), $276
- **Adjustments to reconcile to net cash provided by operating activities**
  - Depreciation: 156, 137, 129
  - Amortization of purchased intangibles: 30, 56, 41
  - Impairment of goodwill: 2,490
  - Deferred income taxes: $(98), 10, (6)
  - Net gain on AMSEC reorganization: (23)
- **Decrease (increase) in**
  - Accounts receivable: (56), (103), 86
  - Inventoried costs: (101), 52, 74
  - Prepaid expenses and other current assets: (1), 2, 3
- **Increase (decrease) in**
  - Accounts payable and accruals: (111), 145, (24)
  - Retiree benefits: (28), (28), 49
  - Other non-cash transactions, net: (3), (2), 5
- **Net cash (used in) provided by operations**: (88), 339, 610

### Investing Activities
- **Additions to property, plant, and equipment**: (181), (218), (246)
- **Proceeds from insurance carriers related to capital expenditures**: 4
- **Payment in conjunction with AMSEC reorganization**: (8)
- **Decrease in restricted cash**: 61, 66
- **Other investing activities, net**: 3, 5, (5)
- **Net cash used in investing activities**: (178), (152), (189)

### Financing Activities
- **Net transfers from (to) parent**: 266, (187), (421)
- **Net cash provided by (used in) financing activities**: 266, (187), (421)
- **Increase (decrease) in cash and cash equivalents**: —, —, —
- **Cash and cash equivalents, beginning of year**: —, —, —
- **Cash and cash equivalents, end of year**: $—, $—, $—

### Supplemental Cash Flow Disclosure
- **Cash paid for interest**: $16, $16, $16

### Non-Cash Investing and Financing Activities
- **Investment in AMSEC**: $30
- **Capital expenditures accrued in accounts payable**: $47, $42, $32

The accompanying notes are an integral part of these consolidated financial statements.
## CONSOLIDATED STATEMENTS OF CHANGES IN PARENT’S EQUITY IN UNIT

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Parent’s Equity in Unit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>$1,578</td>
<td>$4,185</td>
<td>$4,325</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>124</td>
<td>(2,420)</td>
<td>276</td>
</tr>
<tr>
<td>Adoption of new GAAP accounting guidance</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net transfers from (to) parent</td>
<td>266</td>
<td>(187)</td>
<td>(421)</td>
</tr>
<tr>
<td>At end of year</td>
<td>1,968</td>
<td>1,578</td>
<td>4,185</td>
</tr>
<tr>
<td><strong>Accumulated Other Comprehensive Loss</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At beginning of year</td>
<td>(617)</td>
<td>(204)</td>
<td>(327)</td>
</tr>
<tr>
<td>Other comprehensive income (loss), net of tax</td>
<td>86</td>
<td>(413)</td>
<td>123</td>
</tr>
<tr>
<td>At end of year</td>
<td>(531)</td>
<td>(617)</td>
<td>(204)</td>
</tr>
<tr>
<td><strong>Total parent’s equity in unit</strong></td>
<td>$1,437</td>
<td>$961</td>
<td>$3,981</td>
</tr>
</tbody>
</table>

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Northrop Grumman Shipbuilding and its subsidiaries (NGSB or the company) are 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.

The company’s business is organized into two operating segments, Gulf Coast and Newport News. Through its Gulf Coast shipyards, the company is the sole supplier and builder of amphibious assault and expeditionary ships to the U.S. Navy, the sole builder of National Security Cutters for the U.S. Coast Guard, one of only two companies that 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).

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 18. 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.

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 18.

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 and 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 unbilled accounts receivable or inventoried costs, with any remaining amount reflected in other current liabilities. Accruals for contract losses totaled $53 million at December 31, 2009 and $12 million at December 31, 2008 and are recorded 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 Note 5).

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

General and administrative expenses 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 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 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, the allowable portion of corporate home office costs, and the current state income tax provision.

General and administrative expenses for the years ended December 31, 2009, 2008 and 2007, totaled $639 million, $564 million and $641 million, respectively.

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 $21 million in each of the years 2009, 2008 and 2007, 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, 2009, and 2008, the company did not have any accrued receivables related to insurance reimbursements or recoveries for environmental matters.
**NORTHROP GRUMMAN SHIPBUILDING**

*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 are 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, 2009 and 2008 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, 2009. 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, 2009, and 2008.

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 Type</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 Note 8).

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, Northrop Grumman’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 3.47% and 4.06% at December 31, 2009, and 2008, respectively, which were determined by using a risk-free rate based on future payment streams. Workers’ compensation benefit obligation on an undiscounted basis is $686 million and $713 million as of December 31, 2009 and 2008, respectively.

Litigation, Commitments, and Contingencies — Amounts associated with litigation, commitments, and contingencies are recorded as

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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 that only cover company 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, 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. As of December 31, 2008, the assets were calculated by rolling back the December 31, 2009 amounts and reflecting the appropriate allocated values for contributions, payments to participants, and asset returns experienced by the plans during the prior year. The Cost Accounting Standards (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, 2009 and 2008, was comprised of unamortized benefit plan costs of $531 million (net of tax benefit of $338 million) and $617 million (net of tax benefit of $393 million), respectively.

Subsequent Events — Management has evaluated subsequent events after the balance sheet date through September 2, 2010, the date the financial statements were available to be issued, for appropriate accounting treatment and disclosure.

3. ACCOUNTING STANDARDS UPDATES

In June 2009, the Financial Accounting Standards Board (FASB) issued its final Statement of Financial Accounting Standards (SFAS) No. 168 — The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 . SFAS No. 168 made the FASB Accounting Standards Codification (the Codification) the single source of GAAP used by nongovernmental entities in the preparation of financial statements, except for rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative accounting guidance for SEC registrants. The Codification is meant to simplify user access to all authoritative accounting guidance by reorganizing GAAP pronouncements into roughly 90 accounting topics within a consistent structure; its purpose is not to create new accounting and reporting guidance. The Codification supersedes all existing non-SEC accounting and reporting standards and was effective for the company beginning July 1, 2009. Following SFAS No. 168, the Board will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the Codification, provide background information about the guidance, and provide the basis for conclusions on the change(s) in the Codification. In the description of Accounting Standards Updates that follows, references in “italics” relate to Codification Topics and Subtopics, and their descriptive titles, as appropriate.

Accounting Standards Updates Not Yet Effective

In June 2009, an update was made to ASC “Consolidation — Consolidation of Variable Interest Entities.” Among other things, the
update replaces the calculation for determining which entities, if any, have a controlling financial interest in a variable interest entity (VIE) from a quantitative based risks and rewards calculation, to a qualitative approach that focuses on identifying which entities have the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. The update also requires ongoing assessments as to whether an entity is the primary beneficiary of a VIE (previously, reconsideration was only required upon the occurrence of specific events), modifies the presentation of consolidated VIE assets and liabilities, and requires additional disclosures about a company’s involvement in VIEs. This update will be effective for the company beginning January 1, 2010. Management believes that adoption in 2010 will not have a significant effect on the company’s consolidated financial position and results of operations.

Other Accounting Standards Updates not effective until after December 31, 2009, are not expected to have a significant effect on the company’s consolidated financial position or results of operations.

4. SEGMENT INFORMATION

At December 31, 2009, 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>Segment</th>
<th>Sales and Service Revenues</th>
<th>Operating Income (Loss)</th>
<th>Total Segment Operating Income (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gulf Coast</td>
<td>2,865</td>
<td>2,848</td>
<td>2,681</td>
</tr>
<tr>
<td>Newport News</td>
<td>3,534</td>
<td>3,427</td>
<td>3,044</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intersegment eliminations</td>
<td>(107)</td>
<td>(86)</td>
<td>(33)</td>
</tr>
<tr>
<td>Total sales and service revenues</td>
<td>6,292</td>
<td>6,189</td>
<td>5,692</td>
</tr>
</tbody>
</table>

Non-segment factors affecting operating income (loss)

- Net pension and post-retirement benefits adjustment: (88) (25) (46)
- Deferred State Income Taxes: 15 (1) 2

Total operating income (loss) $ 211 $(2,354) $ 447

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>Segment</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>1,922</td>
</tr>
<tr>
<td>Newport News</td>
<td>2,672</td>
</tr>
<tr>
<td>Corporate</td>
<td>407</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 5,001</td>
</tr>
</tbody>
</table>
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$ in millions

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year ended December 31</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital Expenditures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>102</td>
<td>153</td>
<td>181</td>
</tr>
<tr>
<td>Newport News</td>
<td>79</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total capital expenditures</strong></td>
<td>$181</td>
<td>$218</td>
<td>$246</td>
</tr>
<tr>
<td><strong>Depreciation and Amortization</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>101</td>
<td>110</td>
<td>88</td>
</tr>
<tr>
<td>Newport News</td>
<td>85</td>
<td>83</td>
<td>82</td>
</tr>
<tr>
<td><strong>Total depreciation and amortization</strong></td>
<td>$186</td>
<td>$193</td>
<td>$170</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.

5. 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 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, the company completed its 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.

**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.

6. 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, 2009, are expected to be collected in 2010, except for approximately $13 million due in 2011 and $34 million due in 2012 and later.

Allowances for doubtful amounts mainly represent certain commercial receivables which may not be successfully collected. Accounts receivable were composed of the following:
7. INVENTORYED COSTS, NET

Inventoried costs were composed of the following:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production costs of contracts in process</td>
<td>$ 1,009</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>14</td>
</tr>
<tr>
<td>Progress payments received</td>
<td>1,023</td>
</tr>
<tr>
<td>Raw material inventory</td>
<td>212</td>
</tr>
<tr>
<td>Total inventoried costs, net</td>
<td>$ 298</td>
</tr>
</tbody>
</table>

8. 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, 2009, 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, 2009, and 2008, amounted to $2,490 million. The goodwill has no tax basis, and accordingly, there was no tax benefit to be derived from recording the impairment charge.

The changes in the carrying amounts of goodwill during 2008 and 2009, are as follows:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Gulf Coast</th>
<th>Newport News</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as of January 1, 2008</td>
<td>$ 1,766</td>
<td>$ 1,858</td>
<td>$ 3,624</td>
</tr>
<tr>
<td>Goodwill Impairment</td>
<td>(1,278)</td>
<td>(1,212)</td>
<td>(2,490)</td>
</tr>
<tr>
<td>Balance as of December 31, 2008</td>
<td>488</td>
<td>646</td>
<td>1,134</td>
</tr>
<tr>
<td>Balance as of December 31, 2009</td>
<td>$ 488</td>
<td>$ 646</td>
<td>$ 1,134</td>
</tr>
</tbody>
</table>

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.
NORTHROP GRUMMAN SHIPBUILDING

intangible assets:

<table>
<thead>
<tr>
<th></th>
<th>December 31 2009 (in millions)</th>
<th>December 31 2008 (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross carrying amount</td>
<td>$939</td>
<td>$939</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>(329)</td>
<td>(299)</td>
</tr>
<tr>
<td>Net carrying amount</td>
<td>$610</td>
<td>$640</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 2009, 2008, and 2007, was $30 million, $56 million, and $41 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 5.

The table below shows expected amortization for purchased intangibles as of December 31, 2009, for each of the next five years:

<table>
<thead>
<tr>
<th>Year ending December 31</th>
<th>$ in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$23</td>
</tr>
<tr>
<td>2011</td>
<td>20</td>
</tr>
<tr>
<td>2012</td>
<td>20</td>
</tr>
<tr>
<td>2013</td>
<td>20</td>
</tr>
<tr>
<td>2014</td>
<td>20</td>
</tr>
</tbody>
</table>

9. INCOME TAXES

The company’s earnings are entirely domestic and its effective tax rate for the year ended December 31, 2009 was 29.5 percent as compared with 27.1 percent (excluding the non-cash, non-deductible goodwill impairment charge of $2.5 billion) and 32.9 percent in 2008 and 2007, respectively. The company’s effective tax rates reflect tax credits and manufacturing deductions, as well as the benefit associated with the non-taxable book gain generated on the AMSEC transaction in 2007. 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.

Federal income tax expense for the years ended December 31, 2009, 2008, and 2007, consisted of the following:

<table>
<thead>
<tr>
<th>$ in millions</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Income Taxes on Operations</td>
<td>$135</td>
</tr>
<tr>
<td>Federal income taxes currently payable</td>
<td>$135</td>
</tr>
<tr>
<td>Change in deferred federal income taxes</td>
<td>(83)</td>
</tr>
<tr>
<td>Total federal income taxes</td>
<td>$52</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>$ in millions</th>
<th>Year ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Income tax expense (benefit) on operations at statutory rate</td>
<td>$61</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>872</td>
</tr>
<tr>
<td>Manufacturing deduction</td>
<td>(6)</td>
</tr>
<tr>
<td>Research tax credit</td>
<td>(1)</td>
</tr>
<tr>
<td>Wage credit</td>
<td>(2)</td>
</tr>
<tr>
<td>Non taxable gain on AM SEC reorganization</td>
<td>(7)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(3)</td>
</tr>
<tr>
<td>Total federal income taxes</td>
<td>$52</td>
</tr>
</tbody>
</table>

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Uncertain Tax Positions — The company adopted the required GAAP accounting for uncertain tax positions issued in 2007. At the date of adoption, the company made a comprehensive review of its portfolio of uncertain tax positions in accordance with the appropriate recognition criteria. As a result of this review, the company adjusted the estimated value of its uncertain tax positions on January 1, 2007, resulting in a net reduction of its liabilities by approximately $5 million. Upon the adoption of the new GAAP requirements at January 1, 2007, the estimated value of the company’s uncertain tax positions was a liability of $51 million, which included accrued interest of $9 million.

During 2007, Northrop Grumman reached a partial settlement agreement with the IRS and the U.S. Congressional Joint Committee on Taxation (Joint Committee) regarding its audit of its tax years ended December 31, 2001 through 2003. The impact to the company as a result of Northrop Grumman’s settlement was not material to the statement of operations or cash flows. During 2009, Northrop Grumman also reached a final settlement with the IRS Office of Appeals and Joint Committee on all of the remaining issues from the IRS’ examination of Northrop Grumman’s tax returns for those same years. Northrop Grumman’s settlement had no impact to the company.

The IRS recently concluded its examination of Northrop Grumman’s tax returns for the years 2004 through 2006 and in the second quarter of 2010, Northrop Grumman received final approval from the IRS and the U.S. Congressional Joint Committee on Taxation of the IRS’ examination. As a result of the settlement, the company reduced its liability for uncertain tax positions by approximately $9 million in the second quarter of 2010, which was recorded as a reduction to the company’s effective tax rate.

As of December 31, 2009, 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 $26 million, including accrued interest of $5 million. This liability is included in other long-term liabilities in the consolidated balance sheet. 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 income statement, and includes the value of the company’s recorded uncertain tax positions. If the income tax benefits from these tax positions are ultimately realized, such realization would affect the company’s effective tax rate. The company had unrecognized tax benefits (exclusive of interest) of $21 million, $19 million, $26 million and $42 million as of December 31, 2009, 2008, 2007 and January 1, 2007, respectively. The change in unrecognized tax benefits during 2009 was attributable to additions for current year positions. The change in unrecognized tax benefits during 2008 and 2007 were primarily attributable to a lapse of statutes of limitation and the partial settlement with the IRS as previously noted, respectively.

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.

During the year ended December 31, 2009, the company recorded approximately $1 million of interest expense within federal income tax expense and during the year ended December 31, 2008, the company recorded approximately $3 million of interest income that was primarily attributable to state tax and was recorded within operating margin. During the year ended December 31, 2007, the company recorded approximately $3 million of interest expense that was primarily attributable to state tax and was recorded within operating margin.

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:
Deferred Tax Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement benefit plan expense</td>
<td>$544</td>
<td>$604</td>
</tr>
<tr>
<td>Provision for accrued liabilities</td>
<td>154</td>
<td>158</td>
</tr>
<tr>
<td>Contract accounting differences</td>
<td>79</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Gross deferred tax assets</td>
<td>783</td>
<td>762</td>
</tr>
<tr>
<td>Less valuation allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net deferred tax assets</td>
<td>783</td>
<td>762</td>
</tr>
</tbody>
</table>

Deferred Tax Liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and amortization</td>
<td>363</td>
<td>363</td>
</tr>
<tr>
<td>Contract accounting differences</td>
<td>—</td>
<td>11</td>
</tr>
<tr>
<td>Purchased intangibles</td>
<td>250</td>
<td>262</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Gross deferred tax liabilities</td>
<td>613</td>
<td>635</td>
</tr>
<tr>
<td>Total net deferred tax assets</td>
<td>$170</td>
<td>$127</td>
</tr>
</tbody>
</table>

Net deferred tax assets (liabilities) as presented in the consolidated statements of financial position are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net current deferred tax assets</td>
<td>$291</td>
<td>$208</td>
</tr>
<tr>
<td>Net non-current deferred tax liabilities</td>
<td>(121)</td>
<td>(81)</td>
</tr>
<tr>
<td>Total net deferred tax assets</td>
<td>$170</td>
<td>$127</td>
</tr>
</tbody>
</table>

10. LONG-TERM DEBT

Mississippi Economic Development Revenue Bonds — As of December 31, 2009, and 2008, 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, 2009, and 2008, the company had $200 million outstanding from the issuance of Gulf Opportunity Zone Industrial Development Revenue Bonds issued by the Mississippi Business Finance Corporation. These 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, 2009, and 2008, 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>Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term debt</td>
<td>283</td>
<td>285</td>
</tr>
<tr>
<td></td>
<td>283</td>
<td>240</td>
</tr>
</tbody>
</table>

11. 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
NORTHROP GRUMMAN SHIPBUILDING

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 investees of $10 million, $1 million and $6 million in its results of operations within the cost of service revenues for the years ended December 31, 2009, 2008, and 2007, 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.

AMSEC Reorganization — In July 2007, the company and Science Applications International Corporation (SAIC) reorganized their joint venture AMSEC, LLC (AMSEC), by dividing AMSEC along customer and product lines. AMSEC is a full-service supplier that provides engineering, logistics and technical support services primarily to Navy ship and aviation programs. Under the reorganization plan, the company retained the ship engineering, logistics and technical service businesses under the AMSEC name (the AMSEC Businesses) and, in exchange, SAIC received the aviation, combat systems and strike force integration services businesses from AMSEC (the Divested Businesses). This reorganization was treated as a step acquisition for the acquisition of SAIC’s interests in the AMSEC Businesses, with the company recognizing a pre-tax gain of $23 million in cost of service revenue for the effective sale of its interests in the Divested Businesses. The gain represents the excess of the estimated fair value of the portion of NGSB’s investment in the joint venture that was deemed sold over the carrying value of that portion of the investment. The value assigned to the AMSEC Businesses represents the remaining net book value of NGSB’s investment in the joint venture plus the estimated fair value of the portion of the AMSEC Businesses acquired. The estimated fair value of the joint venture businesses was determined using the net present value of the discounted cash flows of each business.

Prior to the reorganization, the company accounted for AMSEC, LLC under the equity method and recorded equity method income in 2007 of $6 million as a decrease in cost of service revenues. The assets, liabilities, and results of operations of the AMSEC Businesses were not material to the company’s consolidated financial position or results of operations, and thus pro-forma information is not presented.

12. 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 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 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 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 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. 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. The District Court denied the motion with respect to those claims relating to hull, mechanical and engineering work. 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.

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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. 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.

13. 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 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, 2009, 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, 2009, 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 its 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 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.

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.
NORTHROP GRUMMAN SHIPBUILDING

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 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. 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 range of reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience 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, 2009, the probable future costs for environmental remediation sites accrued 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 results of operations.

Co-Operative Agreements — In 2003, NGSB executed an agreement with the state of Louisiana whereby the company leases facility improvements and equipment from a non-profit economic development corporation in Louisiana in exchange for certain commitments by NGSB to the state. As of December 31, 2009, the company has met all but one requirement under the agreement. Failure by NGSB to meet the remaining commitment could result in cash reimbursement of $39 million by the company to Louisiana in accordance with the agreement. At December 31, 2009, the company believed it would meet the remaining commitment to the State of Louisiana based on its most recent five-year financial plan.

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, 2009, there were $21 million of unused stand-by letters of credit and $296 million of surety bonds outstanding related to NGSB.

U.S. Government Claims — From time to time, the U.S. Government advises 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. 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 $48 million in 2009, $41 million in 2008, and $38 million in 2007. These amounts are net of immaterial amounts of sublease rental income. Minimum rental commitments under long-term noncancellable operating leases as of December 31, 2009, total approximately $152 million, which are payable as follows: 2010 — $22 million; 2011 — $19 million; 2012 — $18 million; 2013 — $14 million; 2014 — $12 million; and thereafter — $67 million.
NORTHROP GRUMMAN SHIPBUILDING

14. 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 $23 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 Hurricane 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 has recovered a portion of its Hurricane Katrina claim, including $62 million in recovery of lost profits, which was recorded as a reduction of cost of product sales in 2007. 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 15).

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 Hurricane 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 government customer would benefit from a portion of insurance recoveries in excess of the net book value of damaged assets and clean-up and restoration costs paid by the company. When such insurance recoveries occur, the company is obligated to return a portion of these amounts to the government.

15. HURRICANE KATRINA INSURANCE RECOVERIES

Through and as part of Northrop Grumman, 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 Hurricane Katrina (see Note 14). 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. In November 2007, FM Global filed a notice of appeal of the District Court’s order. On August 14, 2008, the U.S. Court of Appeals for the Ninth Circuit reversed the earlier summary judgment order in favor of the company’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. Northrop Grumman filed a Petition for Rehearing En Banc, or in the Alternative, For Panel Rehearing with the Ninth Circuit on August 27, 2008. 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 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. Both motions have been fully briefed and argued. Based on the current status of the litigation, no assurances can be made as to the ultimate outcome of this matter. However, if the company by and through Northrop Grumman is successful in its claim, the potential impact to its 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. (NGRMI), a wholly-owned subsidiary of Northrop Grumman, for certain losses related to Hurricane Katrina. Northrop Grumman was subsequently notified that Munich Re also will seek 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 company believes 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 settled in the company’s favor, then it would be entitled to the remaining $19 million owed for covered losses and it would have no further
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, 2009, 2008, and 2007, were $50 million, $49 million, and $42 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. 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 $28 million as of December 31, 2009 and 2008.

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>$114</td>
<td>$130</td>
<td>$128</td>
<td>$15</td>
<td>$14</td>
<td>$14</td>
</tr>
<tr>
<td>Interest cost</td>
<td>160</td>
<td>156</td>
<td>144</td>
<td>40</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(193)</td>
<td>(231)</td>
<td>(210)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of Prior service cost</td>
<td>13</td>
<td>7</td>
<td>7</td>
<td>(9)</td>
<td>(14)</td>
<td>(14)</td>
</tr>
<tr>
<td>Amortization of Net loss from previous years</td>
<td>48</td>
<td>2</td>
<td>10</td>
<td>9</td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>Net periodic benefit cost</td>
<td>$151</td>
<td>$64</td>
<td>$79</td>
<td>$55</td>
<td>$54</td>
<td>$57</td>
</tr>
</tbody>
</table>
The table below summarizes the changes in the components of unrecognized benefit plan costs for the years ended December 31, 2009, 2008, and 2007.

<table>
<thead>
<tr>
<th>Changes in Unrecognized Benefit Plan Costs</th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net actuarial gain</td>
<td>$ (138)</td>
<td>$(55)</td>
<td>$(193)</td>
</tr>
<tr>
<td>Prior service cost (credit)</td>
<td>15</td>
<td>(2)</td>
<td>13</td>
</tr>
<tr>
<td>Amortization of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior service (cost) credit</td>
<td>(7)</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>(10)</td>
<td>(18)</td>
<td>(28)</td>
</tr>
<tr>
<td>Tax benefits related to above items</td>
<td>54</td>
<td>24</td>
<td>78</td>
</tr>
<tr>
<td>Changes in unrecognized benefit plan costs — 2007</td>
<td>(86)</td>
<td>(37)</td>
<td>(123)</td>
</tr>
<tr>
<td></td>
<td>$ 640</td>
<td>$ (41)</td>
<td>$599</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>57</td>
<td>31</td>
<td>88</td>
</tr>
<tr>
<td>Amortization of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior service (cost) credit</td>
<td>(7)</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>(2)</td>
<td>(15)</td>
<td>(17)</td>
</tr>
<tr>
<td>Tax (expense) benefits related to above items</td>
<td>(268)</td>
<td>4</td>
<td>(264)</td>
</tr>
<tr>
<td>Changes in unrecognized benefit plan costs — 2008</td>
<td>420</td>
<td>(7)</td>
<td>413</td>
</tr>
<tr>
<td></td>
<td>(76)</td>
<td>(5)</td>
<td>(81)</td>
</tr>
<tr>
<td>Prior service cost (credit)</td>
<td>1</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Amortization of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior service (cost) credit</td>
<td>(13)</td>
<td>9</td>
<td>(4)</td>
</tr>
<tr>
<td>Net loss from previous years</td>
<td>(48)</td>
<td>(9)</td>
<td>(57)</td>
</tr>
<tr>
<td>Tax benefits related to above items</td>
<td>54</td>
<td>2</td>
<td>56</td>
</tr>
<tr>
<td>Changes in unrecognized benefit plan costs — 2009</td>
<td>$ (82)</td>
<td>$ (4)</td>
<td>$ (86)</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 $489 million, $573 million, and $219 million as of December 31, 2009, 2008, and 2007, respectively. Net actuarial gains or losses 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 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.
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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><strong>Change in Benefit Obligation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit obligation at beginning of year</td>
<td>$2,756</td>
<td>$2,555</td>
</tr>
<tr>
<td>Service cost</td>
<td>114</td>
<td>130</td>
</tr>
<tr>
<td>Interest cost</td>
<td>169</td>
<td>156</td>
</tr>
<tr>
<td>Plan participants’ contributions</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Plan amendments</td>
<td>2</td>
<td>57</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>114</td>
<td>(54)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(98)</td>
<td>(93)</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Benefit obligation at end of year</td>
<td>3,062</td>
<td>2,756</td>
</tr>
</tbody>
</table>

| Change in Plan Assets | | |
| Fair value of plan assets at beginning of year | 2,297 | 2,735 |
| Gain / (Loss) on plan assets | 384 | (464) |
| Employer contributions | 201 | 114 |
| Plan participants’ contributions | 5 | 5 |
| Benefits paid | (98) | (93) |
| Other | 3 | 2 |
| Fair value of plan assets at end of year | 2,789 | 2,297 |

| Amounts Recorded in Accumulated Other Comprehensive Loss | | |
| Net actuarial loss | $654 | $778 |
| Prior service cost and net transition obligation | 111 | 123 |
| Income tax benefits related to above items | (298) | (351) |
| Unamortized benefit plan costs | $467 | $550 |

The following table shows those amounts expected to be recognized in net periodic benefit cost in 2010:

<table>
<thead>
<tr>
<th>Amounts Expected to be Recognized in 2010 Net Periodic Benefit Cost</th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$38</td>
<td>$8</td>
</tr>
<tr>
<td>Prior service cost (credit)</td>
<td>13</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 $2.8 billion and $2.5 billion at December 31, 2009, and 2008, respectively.

Amounts for pension plans with accumulated benefit obligations in excess of fair value of plan assets associated with company employees are as follows:
NORTHROP GRUMMAN SHIPBUILDING

$ in millions

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected benefit obligation</td>
<td>$2,050</td>
<td>$1,874</td>
</tr>
<tr>
<td>Accumulated benefit obligation</td>
<td>1,823</td>
<td>1,628</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>1,696</td>
<td>1,315</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></th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>Discount rate</td>
<td>6.04%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.51%</td>
<td>3.77%</td>
</tr>
<tr>
<td>Initial health care cost trend rate assumed for the next year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assumptions Used to Determine Benefit Cost for the Year Ended December 31

<table>
<thead>
<tr>
<th></th>
<th>Pension Benefits</th>
<th>Medical and Life Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
<td>2008</td>
</tr>
<tr>
<td>Discount rate</td>
<td>6.25%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Expected long-term return on plan assets</td>
<td>8.50%</td>
<td>8.50%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.77%</td>
<td>4.25%</td>
</tr>
<tr>
<td>Initial health care cost trend rate assumed for the next year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td></td>
<td></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.

The pension plan assets are invested as part of the Northrop Grumman Pension Master Trust. 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></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>$2</td>
<td>$(2)</td>
</tr>
<tr>
<td>Postretirement benefit expense</td>
<td>$22</td>
<td>$(23)</td>
</tr>
</tbody>
</table>

Plan Assets and Investment Policy

The pension plans’ proportionate share of plan assets in the Northrop Grumman 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 pension plans were changed during 2008 and require that the asset allocation be maintained within the following ranges as of December 31, 2009:

<table>
<thead>
<tr>
<th>Asset Allocation Ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. equity</td>
</tr>
<tr>
<td>International equity</td>
</tr>
<tr>
<td>Long bonds</td>
</tr>
<tr>
<td>Real estate and other</td>
</tr>
</tbody>
</table>

The table below represents the proportionate share of the fair values of the company’s pension plans assets at December 31, 2009, by asset category. The proportionate share of the fair values reflects the actual year-end asset allocation of each of the company’s pension plans. The table also identifies 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 table 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>$ in millions</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asset Category</strong></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>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>156</td>
<td></td>
<td></td>
<td>156</td>
</tr>
<tr>
<td>Other U.S. Government Agency Securities</td>
<td>88</td>
<td></td>
<td></td>
<td>88</td>
</tr>
<tr>
<td>Non-U.S. Government Securities</td>
<td>26</td>
<td></td>
<td></td>
<td>26</td>
</tr>
<tr>
<td>Corporate debt</td>
<td>546</td>
<td></td>
<td></td>
<td>546</td>
</tr>
<tr>
<td>Asset backed</td>
<td>96</td>
<td></td>
<td></td>
<td>96</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></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>Real estate and other</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge funds</td>
<td>188</td>
<td></td>
<td></td>
<td>188</td>
</tr>
<tr>
<td>Private equities</td>
<td>242</td>
<td></td>
<td></td>
<td>242</td>
</tr>
<tr>
<td>Real estate</td>
<td>127</td>
<td></td>
<td></td>
<td>127</td>
</tr>
<tr>
<td>Other (2)</td>
<td>7</td>
<td></td>
<td></td>
<td>7</td>
</tr>
<tr>
<td><strong>Fair value of plan assets at end of year</strong></td>
<td>$ 736</td>
<td>$ 1,488</td>
<td>$ 565</td>
<td>$2,789</td>
</tr>
</tbody>
</table>

(1) Cash & cash equivalents are predominately held in money market funds

(2) Other includes futures, swaps, options, insurance contracts and net payable for unsettled trades at year end.

At December 31, 2009, the fair value of the plan assets of $2,789 million in the table above consisted entirely of assets for pension benefits.

The changes in the fair value of the company’s pension plans’ assets measured using significant unobservable inputs during 2009, are as follows:

<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>$583</td>
</tr>
<tr>
<td>Actual return on plan assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets still held at reporting date</td>
<td>2</td>
<td>23</td>
<td>(16)</td>
<td>(57)</td>
<td>(48)</td>
</tr>
<tr>
<td>Assets sold during the period</td>
<td>(1)</td>
<td>(1)</td>
<td></td>
<td></td>
<td>(2)</td>
</tr>
<tr>
<td>Purchases, sales, and settlements</td>
<td>(3)</td>
<td>18</td>
<td>17</td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>Balance as of December 31, 2009</td>
<td>$ 8</td>
<td>$ 188</td>
<td>$ 242</td>
<td>$ 127</td>
<td>$565</td>
</tr>
</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 77 and the unfunded commitments for the trust are $1.1 billion and $1.3 billion as of December 31, 2009, and 2008, 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.

At December 31, 2009, and 2008, the defined benefit pension trust did not hold any Northrop Grumman common stock.

In 2010, Northrop Grumman expects to contribute on the company’s behalf the required minimum funding level of approximately $2 million to its pension plans and approximately $37 million to its other post-retirement benefit plans.

It is not expected that any assets will be returned to the company from the benefit plans during 2010.

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, 2009:

<table>
<thead>
<tr>
<th>Year Ending December 31</th>
<th>Pension Plans</th>
<th>Medical and Life Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$105</td>
<td>$37</td>
</tr>
<tr>
<td>2011</td>
<td>114</td>
<td>38</td>
</tr>
<tr>
<td>2012</td>
<td>124</td>
<td>39</td>
</tr>
<tr>
<td>2013</td>
<td>137</td>
<td>42</td>
</tr>
<tr>
<td>2014</td>
<td>151</td>
<td>45</td>
</tr>
<tr>
<td>2015 through 2019</td>
<td>990</td>
<td>284</td>
</tr>
</tbody>
</table>

17. STOCK COMPENSATION PLANS

Plan Descriptions

The company participates in certain of Northrop Grumman’s stock-based award plans. At December 31, 2009, company employees had stock-based compensation awards outstanding under the following Northrop Grumman-sponsored plans: the 2001 Long-Term Incentive Stock Plan (2001 LTISP) and the 1993 Long-Term Incentive Stock Plan (1993 LTISP). Both of these plans were approved by Northrop Grumman’s shareholders. Northrop Grumman has historically issued new shares to satisfy award grants.

The 2001 LTISP and 1993 LTISP plans 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 in years two to five under the 1993 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 either of the LTISPs. 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.
NORTHROP GRUMMAN SHIPBUILDING

Compensation Expense

Total stock-based compensation allocated to NGSB by Northrop Grumman for the value of the awards granted to company employees for the years ended December 31, 2009, 2008, and 2007, was $11 million, $13 million, and $23 million, respectively, of which $1 million, $1 million, and $1 million related to stock options and $10 million, $11 million, and $22 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, 2009, 2008, and 2007, were $5 million, $5 million, and $9 million, respectively. Shares issued to satisfy stock-based compensation awards are recorded by Northrop Grumman and, accordingly, are not reflected in NGSB’s consolidated financial statements.

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, 2009, 2008, and 2007 was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend yield</th>
<th>Volatility rate</th>
<th>Risk-free interest rate</th>
<th>Expected option life (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>3.6%</td>
<td>25%</td>
<td>1.7%</td>
<td>5 &amp; 6</td>
</tr>
<tr>
<td>2008</td>
<td>1.8%</td>
<td>20%</td>
<td>2.8%</td>
<td>6</td>
</tr>
<tr>
<td>2007</td>
<td>2.0%</td>
<td>20%</td>
<td>4.6%</td>
<td>6</td>
</tr>
</tbody>
</table>

The weighted-average grant date fair value of Northrop Grumman’s stock options granted during the years ended December 31, 2009, 2008, and 2007, was $7, $15, and $15, per share, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008, and 2007, was zero, $2 million, and $8 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. 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. In 2010, Northrop Grumman expects to issue to company employees an additional 138,000 shares of common stock that were vested in 2009, with a grant date fair value of $10 million. During the year ended December 31, 2008, 348,000 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 $19 million and a grant date fair value of $28 million. During the year ended December 31, 2007, 306,000 shares were issued to company employees in settlement of prior year stock awards that were fully vested, with a total value upon issuance of $15 million and a grant date fair value of $23 million. There were 279,000, 167,000 and 177,000 stock award shares granted to company employees for the years ended December 31, 2009, 2008 and 2007, respectively, with a weighted-average grant date fair value of $45, $80 and $72 per share, respectively.

Unrecognized Compensation Expense

At December 31, 2009, there was $14 million of unrecognized compensation expense related to unvested awards granted under Northrop Grumman’s stock-based compensation plans for company employees, of which $1 million related to stock options and $13 million related to stock awards. These amounts are expected to be charged to expense over a weighted-average period of 1.4 years.
18. 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. 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, risk management, internal audit, finance, tax, legal, executive office and other administrative support. Human resources, employee benefits administration, treasury and 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 $82 million, $95 million, and $137 million for the years ended December 31, 2009, 2008, and 2007, 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, $323 million and $311 million for the years ended December 31, 2009, 2008, and 2007, 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. 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 $680 million, $637 million and $609 million for the years ended December 31, 2009, 2008, and 2007, 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 $100 million, $73 million, and $79 million in 2009, 2008, and 2007, respectively. Sales of products and services to these entities were $9 million, $8 million, and $14 million in 2009, 2008, and 2007, respectively. No intercompany trade receivables or payables were outstanding as of the years ended December 31, 2009, and 2008.

Notes Payable to Parent

As of December 31, 2009 and 2008, the company had $537 million of promissory notes outstanding with Northrop Grumman that were issued in conjunction with Northrop Grumman’s purchase of Newport News Shipbuilding in 2001. The notes accrue interest quarterly at five percent per annum, no periodic payments related to the notes are required, and both the principal and accrued interest are due on demand. Accrued and unpaid interest totaled $212 million and $185 million for the years ended December 31, 2009, and 2008, respectively. Intercompany interest expense of $27 million for each of the years ended December 31, 2009, 2008, and 2007 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 position.
19. UNAUDITED SELECTED QUARTERLY DATA

Unaudited quarterly financial results are set forth in the following tables.

2009

<table>
<thead>
<tr>
<th>$ in millions</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>6.5</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.

2008

<table>
<thead>
<tr>
<th>$ in millions</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>$1,279</td>
<td>$1,702</td>
<td>$1,466</td>
<td>$1,742</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>(226)</td>
<td>108</td>
<td>110</td>
<td>(2,346)</td>
</tr>
<tr>
<td>Earnings (loss) before income taxes</td>
<td>(236)</td>
<td>9.9</td>
<td>9.9</td>
<td>(2,256)</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>(162)</td>
<td>6.6</td>
<td>72</td>
<td>(2,396)</td>
</tr>
</tbody>
</table>

In the first quarter of 2008, the company recognized a $272 million pre-tax charge for anticipated cost growth on LHD 8 related to the identified need for substantial rework of the ship. Additional charges totaling $54 million were also recognized in the first quarter for schedule impacts on other ships and impairment of purchased intangible assets at the Gulf Coast shipyards.

In the fourth quarter of 2008, the company recorded a non-cash, after-tax charge of $2.5 billion for impairment of goodwill.

20. SUBSEQUENT EVENTS

Shipbuilding Strategic Decisions — In July 2010, Northrop Grumman announced plans to consolidate NGSB’s Gulf Coast operations by winding down the Avondale, Louisiana facility in 2013 after completing LPD-class ships currently under construction. 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, has increased the estimates to complete for LPDs 23 and 25 by approximately $210 million. The company recognized a $113 million pre-tax charge to second quarter 2010 operating income for these contracts, which are both now in a forward loss position.

In connection with and as a result of the decision to wind down 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 as of June 30, 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.

The company also evaluated the effect the winding down of the Avondale facilities might have on the benefit plans in which NGSB employees participate. NGSB determined that the potential impact of a curtailment in these plans was not material to its consolidated financial position, results of operations, or cash flows.

Northrop Grumman also 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 by allowing both Northrop Grumman and NGSB to more effectively pursue their respective opportunities to maximize long-term value. Strategic alternatives for NGSB include, but are not limited to, a spin-off to Northrop Grumman shareholders.

Hurricane Katrina Insurance Recoveries- FM Global Legal Action — On August 26, 2010, the District Court denied the company’s motion to add AON Risk Services, Inc. of Southern California (AON) as a defendant to the case pending in federal court, finding that the company has a viable option to bring suit against AON in State Court if it so chooses. Also on August 26, the District Court